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World Business Newspaper http://www.FT.com WEDNESDAY MAY 28 1997

Mubarak puts new proposals to Netanyahu

Egypt has drawn up a set of proposals which could break a two-month deadlock in the Middle East peace process and bring Israeli and Palestinian leaders into direct talks. Following three hours of talks with Israeli prime minister Benjamin Netanyahu in the Egyptian resort of Sharm el-Sheikh yesterday, President Hosni Mubarak of Egypt (left) said he had put new proposals to the Israeli premier and would arrange a meeting between Mr Netanyahu and Palestinian leader Yassir Arafat. The proposals marked a shift away from Arab demands that the settlement policy, continuation of which is a key to Mr Netanyahu retaining the support of his rightwing coalition partners, be abandoned outright. Mr Mubarak said in an exclusive interview with the Financial Times: "It may not be called new concessions. It's a kind of narrowing the gap between the two sides." Page 16; Souk-style haggling, Page 14

Khatami cool over change: Iran's president-elect Mohammad Khatami disappointed those who expected to hear proposals for greater cultural and social freedoms. In his first press conference since his landslide victory last Friday he stressed his Islamic credentials, the importance of the country's spiritual leader Ayatollah Khamenei, and Iran's independence and security "within the framework of the Islamic constitution". Page 6

EMI cuts back in US: UK music company EMI Group announced plans to rationalise its North American record labels and to return roughly £520m ($842.4m) of capital to investors in a share buy-back. The cost cutting will include shedding 35 senior executives and dropping an unknown number of artists. Page 17

Sega merger with Bandai off: Japanese video game maker Sega and Bandai, Japan's largest toymaker which developed the phenomenally successful *tamagotchi* virtual pet, called off their merger a day before the agreement was to be signed. Page 17

Alphatec default danger: Thai computer chip manufacturer Alphatec Electronics warned it was in danger of defaulting on nearly $80m in obligations to international creditors due next month. The Thai cabinet set up a committee to explore ways of bailing out one of the country's flagship exporters. Page 17

Caspian in Dutch talks: Caspian group, owner of UK football club Leeds United, have held talks with Dutch club PSV Eindhoven about an alliance involving an exchange of equity stakes and an agreement to share players. If the deal goes through it will be the first time a British club has linked with one from overseas. Page 22

Banco Santander takes stake: Spain's Banco Santander has agreed to pay $594m for a controlling stake in Argentina's Banco Río de la Plata, giving it a leading position among the country's private-sector banks. Page 17

Dairy boards link up: The boards of the Avonmore and Waterford dairy companies have agreed to merge, creating the largest milk company in Ireland and the UK, and the third-largest in the European Union. Page 17

Prodi fails to win consensus: Italian prime minister Romano Prodi has failed in his first attempt to forge a consensus among the parties backing his centre-left government on cutting pensions and welfare benefits. Page 2

Koruna plunges on debut: The Czech koruna made its debut on foreign exchange markets as a floating currency but fell 10 per cent below its last fixed level against a hard currency basket. Page 2

Ceasefire initiative: The US government is discreetly stepping up pressure on the IRA to declare a ceasefire as part of a renewed diplomatic offensive over Northern Ireland. Page 16

Metro to double capital: German cash-and-carry retailer Metro said it would reach into its reserves to fund a scrip share issue that would double its capital. Page 18

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STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	7,374.34	(+28.43)
NASDAQ Composite	1,405.26	(+15.54)
Europe and Far East		
CAC40	2,680.34	(+25.60)
DAX	3,674.36	(+16.50)
FTSE 100	4,681.6	(+19.6)
Nikkei	19,898.88	(-153.61)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.160%
Long Bond	95
Yield	7.022%

OTHER RATES

UK: 3-mo Interbank	6⅝%	(same)
UK: 10 yr Gilt	100¼	(100⅜)
France: 10 yr OAT	97.66	(97.51)
Germany: 10 yr Bond	100.59	(100.54)
Japan: 10 yr JGB	102.419	(102.879)

NORTH SEA OIL (Argus)

Brent Dated	$n/a	(20.22)

GOLD

New York: Comex	$n/a	(342.8)
London: close	$343.95	(342.95)

DOLLAR

New York: lunchtime		
£	1.63275	
DM	1.7045	
FFr	5.7575	
SFr	1.421	
Y	116.6	
London:		
£	1.6289	(1.6396)
DM	1.7012	(1.6899)
FFr	5.7386	(5.7060)
SFr	1.418	(1.4005)
Y	116.605	(116.335)
Tokyo close:	Y 116.85	

STERLING

DM	2.771	(2.771)

9 770174 738135 22

Russian leader stuns alliance with surprise move after signing security pact

No missiles pointed at Nato, says Yeltsin

US President Bill Clinton and Russian leader Boris Yeltsin shake hands after signing a historic security pact in Paris Picture: AP

By David Buchan in Paris

Mr Boris Yeltsin, the Russian president, caused a sensation at a summit meeting with Nato leaders in Paris yesterday by promising that Russia would no longer target any *nuclear missiles* at the 16 countries of the western military alliance.

Mr Yeltsin's surprise declaration came just after he and leaders of the Nato countries had signed a historic security pact partnership.

After hailing the agreement for introducing "a new phase in the life of a peaceful Europe", Mr Yeltsin unexpectedly returned to the podium in the Elysée palace. "I have taken a decision today," said the Russian president, who has a record of making impromptu statements. "Everything that is aimed at countries present here – all of those weapons – are going to have their warheads removed."

Russia and the US had already agreed not to target each other's cities, but Mr Yeltsin's decision appears to cover all of Nato.

While Mr Yeltsin's declaration boosted the celebratory mood, it caused some confusion even among Mr Yeltsin's aides. Mr Yeltsin's spokesman eventually explained: "The president means that the warheads will not be targeted at the states which have signed the Founding Act."

In Moscow, the Russian defence ministry said later all the country's nuclear warheads had been retargeted away from Nato nations.

The Founding Act on Mutual Relations, Cooperation and Security signed yesterday is essentially designed to ease Russian anxiety about Nato's plans to extend its membership eastwards.

A Nato official said clarification of Mr Yeltsin's remark was a perfect topic for debate within the new Nato-Russia Council, set up under yesterday's pact. The council, which will have its own permanent secretariat, is supposed to give Russia and Nato a voice, but not a veto, in each other's security decisions.

Western leaders went out of their way to bolster Mr Yeltsin against domestic criticism. President Bill Clinton praised "the courage and vision of Boris Yeltsin to imagine a future different from the past". The Russian president's opponents have argued that the pact gives Moscow little, in return for allowing Nato to expand near Russia's borders.

"Russia still views negatively Nato's expansion plans," said Mr Yeltsin. He stressed the difficulty of the six negotiating sessions, but said: "Nato has taken into account our interests" by promising that it would not put nuclear weapons or permanently base troops (from other Nato countries) in the new Nato states.

At its July 8-9 summit in Madrid, Nato is expected to invite Poland, the Czech Republic and Hungary to join. Moscow opposes a similar invitation for the three Baltic states – which made clear yesterday at a regional meeting in Tallinn with Poland and Ukraine that they still hoped to join Nato one day.

Mr Clinton, who has been the main advocate of Nato expansion, said he was determined to "create a future where European security is not a zero sum game" with Nato gaining at Russia's expense or vice versa.

French president Jacques Chirac, host of yesterday's meeting, said "the Paris agreement does not shift the divisions created in Yalta [the 1945 summit that carved Europe into Western and Soviet zones of influence], it wipes them out once and for all."

Editorial Comment, Page 15

Chirac in TV appeal for voters to reject Socialists

By David Buchan and Andrew Jack in Paris

President Jacques Chirac yesterday warned French voters not to return to "the Socialist ideas of yesterday", in his fight to keep his centre-right government in power at next Sunday's final parliamentary election round.

In his most forceful intervention yet in the campaign, the president said on nationwide TV that France had too long delayed reforms "which have cost us dear in jobs, taxes, debt and also in illusions". Promoting a French-style model of economic liberalism, he said France needed an economy built on "initiative and liberty", a state "more efficient and more decentralised", and a "renovated" welfare system protecting its people from "the effects of globalisation".

Mr Chirac paid tribute to the "self sacrifice and courage" of Mr Alain Juppé who in the wake of the centre-right's surprisingly bad showing in last Sunday's first round election announced he would quit next week as prime minister, whatever the final election result.

The president sought to use last night's address to give the centre-right's flagging campaign a new boost.

He implicitly warned voters against forcing a leftwing government on him, splitting power in France and thereby weakening France's voice abroad. "I hope that the majority you choose will not risk endangering the construction of Europe," Mr Chirac told his viewers. "France must be strong, coherent and determined to defend its interests in the major negotiations" under way in Europe.

Seeking to blunt the left's

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Contenders line up, Page 2
One certain loser, Page 15

Setback for Clinton over sex lawsuit

By Patti Waldmeir in Washington

The US Supreme Court yesterday dealt President Bill Clinton a political setback, ruling unanimously that Ms Paula Jones can pursue her sexual harassment suit against him while he remains in office.

The unexpected ruling will increase pressure on the White House to seek an out-of-court settlement of the suit, in which Ms Jones alleges that Mr Clinton tried to use his position as governor of Arkansas to compel her to have sex.

Mr Clinton denies the allegations and the decision will fuel argument among the public over whether he abused his office in an attempt to procure sexual favours.

It came on a day when he was already under unusually heavy pressure from the liberal wing of his own Democratic party on trade and foreign policy.

Mr Dick Gephardt, the House minority leader, bitterly attacked Mr Clinton's China policy, and called on Congress to reject the president's plan for renewal of most favoured nation trading status for Beijing.

"Our trade policy with China has failed," Mr Gephardt said yesterday, in a major policy statement aimed at staking his political ground as a candidate for the Democratic nomination for the presidency in 2000.

In a speech clearly targeted at the liberal and union vote, he said the president's policy of "engagement" had failed "not only on moral grounds, but economically as well".

Meanwhile, the Supreme Court's decision does not mean that the Paula Jones case – which has already seriously embarrassed the president – will immediately go ahead. The justices left the decision on timing to the trial judge.

But they ruled that the president could not be placed above the law, rejecting Mr Clinton's argument that the constitution gives a sitting president temporary immunity from facing lawsuits unrelated to his official duties.

The court decision came as the president was in Paris celebrating the signing of an historic Nato-Russia pact, which could pave the way for the expansion of Nato – one of the acts which he hopes will mark his place in history.

Supporters of Ms Jones said yesterday they were delighted with the ruling, which could mean that Mr Clinton could become the first president to go on trial to fight a private lawsuit while in office.

But it could further distract his attention, at a time when he is also occupied by continuing controversy over campaign finance and the Whitewater financial scandal.

The Supreme Court also heard arguments yesterday on a case which would further circumscribe the president's room for political manoeuvre, by challenging the so-called "line item veto" which allows him to strike down certain parts of legislation without sacrificing all of it.

Gephardt Speech, Page 5

AT&T shares rise on talk of $50bn merger with SBC

By Richard Tomkins in New York

AT&T, the US telecommunications company, yesterday saw its share price rise 4 per cent in early trading after reports that it was discussing a $50bn merger with SBC Communications, a US regional telephone company.

If the merger went ahead, it would be the world's biggest, creating a company with a market capitalisation of well over $100bn and dwarfing last year's $27bn merger between Sandoz and Ciba-Geigy, the Swiss pharmaceutical companies.

However, a deal could face regulatory hurdles because it would partially reverse the demerger of the seven "Baby Bell" regional telephone companies that was forced on AT&T by the US antitrust authorities in 1984.

AT&T's share price was up $1½ at $37⅞ in early trading, and SBC's was $¾ higher at $57⅜. Both companies refused to comment on the reports.

AT&T is the biggest long-distance carrier in the US with about 60 per cent of the market, but it has been suffering the effects of tough price competition from smaller operators, and is under pressure to improve its performance.

The company has been trying to enter the local telephone market by putting together deals with regional telephone companies to buy capacity on their lines, enabling it to offer customers a "one-stop" service for all types of calls; but a merger would provide a much faster alternative.

SBC Communications comprises two regional telephone companies: Southwestern Bell, serving Texas, Oklahoma, Arkansas, Kansas and Missouri, and Pacific Telesis, serving California and Nevada. SBC bought Pacific Telesis for $16.7bn last year.

Last year a new federal telecommunications act opened the way for long-distance operators and local telephone companies to enter each other's markets, but only if their own markets were open to competition.

SBC recently applied for permission to offer long-distance services in Oklahoma, but two weeks ago the Justice

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Prodi fails to win consensus on cuts

By Robert Graham in Rome

Mr Romano Prodi, the Italian prime minister, has failed in his first attempt to forge a consensus among the parties backing his centre-left government on cutting pensions and welfare benefits.

A meeting of party leaders yesterday revealed a big division between the government's insistence on a *substantial reduction in social* outlays and the refusal by the hardliners in Reconstructed Communism (RC) to contemplate any change in the status quo.

A deal has to be hammered out by the end of the week to permit the government to onveil its three-year macro-economic programme. The economic document will also form the basis of Italy's "convergence" plans to meet the criteria for European monetary union, which must be handed over shortly to Brussels.

Mr Prodi and his ministers are aware that failure to implement cuts in the costly state pensions system would provide ammunition for those in the European Union who wisb to exclnde Italy from joining the single currency in the first wave.

Yesterday Mr Fausto Bertinotti, the RC leader, indicated there was still room for nagotiation. Bnt be added: "In the present state of play there is a clear difference of approach and a deep division over the question of social welfare."

The votes of RC are essential for the government's parliamentary majority. Mr Bertinotti has opposed any move to shake up pensions, which had already been the subject of reform in 1995.

His position is also largely shared by the main trade unions. But their leaders have said they will make no commitment either way until they see RC locked into an agreement with the government.

Those close to Mr Bertinotti say he does not share the Prodi government's desire to make Italy join economic and monetary union early and at any cost. It also seems he feels his position *has been reinforced* by the outcome of the first round of voting in France, where the left performed strongly on the back of a similar public attitude to Emu.

Faced with an impasse, the government may be obliged to publish its three-year economic targets without formal agreement on how they will be met.

It was confirmed yesterday the government would be proposing to find a maximum of L23,000bn ($16.8bn) in the 1998 budget to bring the deficit down to 2.8 per cent of gross domestic product. Of this, two thirds would be in the form of spending cuts and the remainder in fresh revenues.

The government has let it be known the bulk of the spending cuts – around L7,000bn – would come from overhauling pensions and to a lesser extent from health service savings.

Another L4,000bn would come from lower transfers to the railways, posts and agriculture. Additional savings would be found in the recently approved reform of the civil service and tightening up on tax evasion.

On the fiscal side, half the new revenue is due to come from changes in value-added tax, which is likely to push annual inflation back to 2 per cent or above.

Preparing for Emu: Survey, Separate Section

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R

French contenders line up

By Andrew Jack and David Owen in Paris

The resignation of Mr Alain Juppé as French prime minister after the poor showing of his government in Sunday's first-round of voting in the election has brought a sudden urgency to the debate over the succession.

In principle, tbe prime minister is chosen by the president and it seems clear that if France's leftwing parties maintain momentum from the first round and gain control of the National Assembly in the second round of voting on Sunday night, Mr Jacques Chirac, leader of the centre-rigbt parties, will have to invite Mr Lionel Jospin, the Socialist leader, to become the new prime minister.

A former education minister – a fact he never ceases to reiterate in his campaign speeches – Mr Jospin has been gradually restructuring the Socialist party, capitalising on the credibility he gathered by scoring unexpectedly well in the presidential race in 1995.

The situation if tha centre-right wins re-election is far more complex, with names of possible candidates already circulating furiously.

Among the most frequently mentioned is Mr Philippe Séguin, mayor of Epinal in eastern France and former social affairs minister, who is best known for leading the No campaign in the 1992 referendum on the Maastricht treaty.

His appointment would be interpreted as a signal that France intended to take a more sceptical stance towards Europe – a development likely to be viewed with concern hy financial markets and a number of France's European partners, notably Germany.

With his emphasis on economic liberalism tempered by a strong state, Mr Séguin is also close to the centre ground of French politics and is hence widely seen as a likely choice in the event of a narrow centre-right victory.

He has repeatedly emphasised in the campaign that he accepts the verdict of the 1992 referendum while still considering Maastricht "a very bad treaty".

Another contender is Mr Edouard Balladur, the RPR prime minister in 1993-95 and a long-standing ally of Mr Chirac until he broke a tacit agreement and ran against him in the 1995 presidential race.

He has since re-established a rapport, and co-ordinated a group of "Balladurian" politicians on the right of the Gaullist movement calling for a faster pace of reform towards a more free market economy.

Mr Jacques Toubon, former minister of culture, was rewarded for his close support of Mr Chirac with the top role as justice minister – a post which has become particularly delicate at a time when a number of political scandals are under investigation.

However, his own National Assembly seat in Paris is under threat.

Mr Alain Madelin, pro-European and economically liberal, is also a possibility. He briefly held the post of finance minister in Mr Juppé's first government during 1995 before the two men clashed over calls for reforms to the civil service.

If the UDF, the RPR's centre-right coalition partner, wins more seats, then its leading figures – Mr François Léotard, the movement'a bead, or his deputy, Mr François Bayrou, education minister, could also be contenders.

It is also possible, though unlikely, Mr Chirac would choose a business executive and not a politician if the right won. Mr Jérôma Monod, his former chief of staff and now head of the utilities group Lyonnaise des Eaux, or even Mr Christian Blanc, Air France chairman, are being mentioned.

French election, Page 14

Britain's new Labour government will seek a closer relationship with France after the final round of French voting in an effort to place the UK more at the centre of decision-making in the European Union, writes Wolfgang Münchau in Paris.

A senior British official said Franco-British relations were bound to change for the better regardless of whether the right or left wins on Sunday.

"Whatever the outcome in the elections there will be a new government and this means a new start in Franco-UK relations," he said. He added that France was bound to embrace political change even if the French government was re-elected.

Several attempts by the previous Conservative government to break the Franco-German axis by seeking a special relationship with France on some occasions and with Germany on others were ultimately doomed because of its antagonistic stance towards the EU.

German officials yesterday reacted with concern over Mr Alain Juppe's resignation as prime minister. Mr Klaus Kinkel, foreign minister, said: "I regret that Alain Juppé has resigned. He has been a brilliant man who has done much to develop the Franco-German relationship."

No cacophony in cohabitation – Jospin

By David Buchan in Paris

If the left maintains the momentum from its first round victory next Sunday, France stands a real chance of a period of divided power – longer than it has experienced before and possibly more conflictual.

In his TV address last night, Mr Jacques Chirac, the gaullist president, made clear that he has effectively taken over as campaign manager for the beleaguered centre-right coalition from Mr Alain Juppé, who has said that he will quit as prime minister next Monday.

Mr Chirac had no choice but to step directly into the arena: the troops of his Gaullist RPR and centre-right UDF coalition were left leaderless by Mr Juppé's move. In doing so, however, he has had to take on a more partisan tone than French presidents, when they are not actually running for the Elysée, are supposed to adopt.

If the left wins, be may then be obliged to take Mr Lionel Jospin, the Socialist leader, as prime minister. This could get the new "cohabitation" between Gaullist president and leftwing government off to a more acrimonious start than in 1986 and 1993 when Mr François Mitterrand, the late Socialist president, had intervened a bit more discreetly in the preceding campaign against incoming rightwing governments.

On foreign policy, Mr Jospin was at pains yesterday to stress that cohabitation would not equal cacophony. If the left wins, Mr Chirac and a new Socialist premier – presumably Mr Jospin himself – would "express the voice of France" at next month's Europan Union summit in Amsterdam.

Mr Jacques Delors, who as European Commission president has observed French leaders' behaviour during the previous two cohabitations of 1986-88 and 1993-95, said last week that "you couldn't have slid a cigarette paper" in between the positions in EU negotiations of Mr Mitterrand and his two gaullist premiers – Mr Chirac and Mr Edouard Balladur.

But France's constitutional distinction that gives the president primacy in foreign policy and the government sway over internal policy is completely blurred by economic and monetary union. Mr Chirac may make whatever general pledges he likes on the euro, but his capacity to deliver on thesa pledges would depend beavily on the government's *spending and taxing decisions*, enabling France to qualify, or not, for the euro.

In one important way, s French prime minister is actually in a stronger position under a president of the opposite political camp than under one of his own party. French presidents are freer to pick and choose premiers from their side of the political fence.

In a cohabitation, however, a prime minister is safe from a president's whims so long as he has a National Assembly majority and keeps its confidence. This provides stability similar to a parliamentary regime, which might perhaps be what the French people are subconsciously striving for.

Mečiar undermines Slovak ambitions

Referendum shambles puts Nato and EU entry on backburner, writes Vincent Boland

Mr Vladimír Mečiar, Slovakia's authoritarian prime minister, used to be surefooted, outwitting his opponents at every turn. After the farce surrounding last weekend's failed test of his democratic credentials, he may finally have gone one step too far.

What should have been a straightforward two-pronged referendum asking Slovaks for their views on Nato and on how they want their president elected, fell victim to his obsession with ridding himself of the one man who has proved an obstacle to his accumulation of power – President Michal Kováč.

The clumsy and probably illegal way he went about it – by using an apparently legal loophole to delete the question on the presidential election from ballot papers – led to a boycott of the referendums by voters, many of whom protested loudly at polling stations when they could not vote on the issue.

It has also outraged domestic and western opinion, and may be the worst misjudgement of his political life.

The weekend's events have further undermined Slovakia's faltering efforts to join Nato. They also deal a serious blow to its ambitions of early membership of the European Union, a message that will be spelled out tomorrow to Mr Mečiar in Bratislava by Mr Hans van den Broek, European commissioner for external relations.

Up to now the feud between Mr Mečiar and Mr Kováč, who were once allies in the fight to oust the communists, had not impinged directly on the democratic process.

Though it has paralysed Slovak politics for the past three years, the power struggle has remained – with the occasional ugly turn – a battle of wills over legislation and personalities rather than an Albanian or Belorussian-style rigging of ballot papers.

Mr Mečiar may have to pay the price for this at the polls. Though he remains the dominant political personality in Slovakia he looked shaken by events at a rowdy televised news conference on Sunday.

While he denounced Mr Kováč for sparking the boycott, he was *clearly unprepared* for the storm about to break over him.

Mr Kováč, who was a strong supporter of the presidential referendum, described its collapse as "the gravest violation of the constitution and legislation ever" in Slovakia and suggested Mr Mečiar and his interior minister resign. The prime minister's opponents are already lamenting "the death knell of democracy in Slovakia."

The dispute between prime minister and president dates from the months immediately after Slovakia emerged as an independent nation on January 1 1993. In an environment where political parties were struggling to assert themselves and the opposition was weak, Mr Mečiar, whose position at that time was unassailable, began to concentrate power in his own hands.

But Mr Kováč, appointed president by the Slovak parliament in early 1993, used the president's limited powers to restrain him. In March 1994 he backed the removal of Mr Mečiar's government amid charges of corruption. This event was crucial in fomenting the prime minister's enmity, and he has sought to undermine the president's position ever since returning to office later that year.

Mr Mečiar has cut off funds for the presidential office *and often snubbed the* president at official occasions, including the official opening last October of a refurbished presidential palace. And he has not ordered a thorough investigation into the kidnapping of Mr Kováč's son two years ago, a murky and still unresolved incident in which the secret service was implicated.

Mr Mečiar's style has drawn repeated criticism from the west, which once angered him but which he now largely ignores. Instead, he has built a closer alliance with Russia while slipping inexorably out of the western orbit.

The weekend's events may now make the country's isolation complete, as Mr Kováč has suggested. Mr Pavol Hamžík, the foreign minister, resigned on Monday complaining it was impossible to make *the country's* case abroad in circumstances where "everything, including the vital international interests of Slovakia, is subordinated to domestic fights for power."

A tentative peace overture from leading opposition figures also appears to have broken down. The opposition may now unite further, perhaps posing a unified challenge to Mr Mečiar's populist/nationalist government at the next election.

Tbat election is not due until September 1998 although Mr Kováč's term expires next March. The referendum on directly electing a successor was meant to avoid a constitutional vacuum. If it cannot be filled Mr Mečiar would assume the presidency's powers for a limited period. He may now decide to bring forward the general election, some observers in Bratislava said.

In an atmosphere of profound bitterness, the only certainty yesterday was that nothing was certain. Mr Mečiar had a frosty meeting with Bratislava's diplomatic community on Monday, at which he offered no sign of a way out of the country's political crisis.

"Normally you can predict what politicians will do but not with Mečiar," one diplomat said yesterday. "He is completely unpredictable."

Mečiar: vote fell victim to his feud against Michal Kováč

Koruna plunges after fresh debut

By Vincent Boland in Prague

The Czech koruna made its debut on foreign exchange markets as a floating currency yesterday. But in a vote of no confidence in the ability of the prime minister, Mr Václav Klaus, to end a prolonged political crisis, it immediately plunged 10 per cent below its last fixed level against a hard currency basket.

After six years as post-communist eastern Europe's strongest and most stable currency and 10 days as the victim of a sustained assault on the money markets, tha koruna finally wilted after being set free by the central bank following a costly battle with speculators.

It is the first currency from tbe region's core emerging markets to be floated, though central bank officials describe the new regime as "a managed float". They hope the koruna eventually finds a snstainable level *informally* pegged to the D-Mark, hut that is likely to take several weeks.

While it rallied slightly later in the day to about 7.5 per cent below Monday's closing level againat tbe D-Mark, the depreciation of the koruna will hava an immediate impact on the Czecb Republic's 10.3m people.

It also ties the economy ever more closely to Germany, its biggest trading partner.

Newspaper editorials are already predicting that belt-tightening lies ahead as the country grapples witb a severe economic downturn that necessitated yesterday's de facto devaluation.

The central bank bas made clear it wants to see significant structural and fiscal measures to back up its decision to make the most radical cbange in Czecb monetary policy since a devaluation in 1991 ushered in tbe era of economic reforms.

That means more cuts in public spending and further wage controls, on top of the reduction in spending power already introduced by the *decision to float the koruna.*

Since mid-February, when the koruna peaked in value and before the economic downturn became so severe, it has fallen from Kc27.8/$1 and Kc16.7/DM1, to Kc32.8/$1 and Kc19.4/DM1 yesterday.

This sudden loss of wealth among cosseted Czechs led to a rapld loss of faith in the koruna, causing a rush late last week to exchange lt for hard currencies.

Analysts said that as well as the soaring cost of defending the koruna in the market, this panic buying by citizens would bave been a crucial factor in the central bank's decision on Monday to let it float.

While there was general agreement yesterday tbat the central bank had acted correctly in changing its policy, analysts said tbe currency would remain volatile as long as political uncertainty continued.

Mr Klaus and other coalition leaders *failed again* yesterday to overcome deep personal and policy differences within the government that bas prevented tha completion of a cabinet resbuffle.

Without an end to tbe political deadlock Mr Klaus cannot follow through on his promise on Monday to back up tbe central bank's monetary policy shift witb a renewed commitment to economic reform.

EUROPEAN NEWS DIGEST

Single theme TV protest

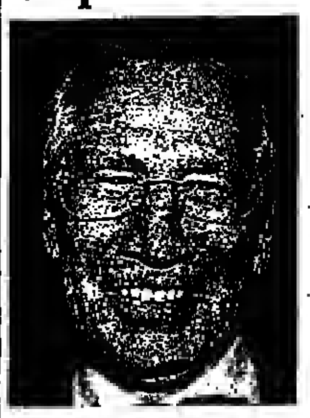
Germany's private broadcasters have complained to tha European Commission because two public service broadcasters have been allowed to use licence fee money to create new single theme cable and satellite channels.

ARD and ZDF have been allocated licence fee money to launch two new channels – Der Kinderkanal, oriented towards children, and Phoenix, a channel specialising in events and documentaries.

A protocol which would exempt public service broadcasters from the competition clauses in the Treaty of Rome is due to be discussed at the Amsterdam Summit next month. Yesterday Mr Jurgen Doetz, president of VPRT, the private broadcasters' body, said it was "absolutely not acceptable" for lobbying by public service broadcasters to lead to an exemption from EU rules.

VPRT is also concerned by the "must carry" rules which mean the new channels are effectively entitled to reserved space on cable networks. This will almost certainly mean that other broadcasters, probably overseas broadcasters, could be kicked off the networks because of capacity problems. *Raymond Snoddy*

Suspended sentence for Wolf



Legendary former East German spymaster was found guilty in a German court yesterday of three kidnappings during the Cold War and handed a two year suspended sentence. The trial was the latest attempt to punish Mr Markus Wolf (pictured left)who ran East Germany's foreign intelligence network for over 30 years after a 1993 treason conviction was overturned in 1995. Mr Wolf,74, was found guilty of organising the kidnapping of a Ministry for State Security (Stasi) official who had fled to the west and the abduction of a West Berlin secretary whom the authorities boped to persuade to spy for the east.

The court said Mr Wolf was also behind the arrest of an East German whom the Stasi tried to force to sign defamatory statements about former Chancellor Willy Brandt, then mayor of West Berlin. *Reuter, Düsseldorf*

German in solo euro fight

A retired journalist has become the first person to start an action in the German constitutional court with the aim of preventing the launch of the European single currency in 1999.

Mr Klaus Peter Heim, 68, said he had lodged a complaint with the court in Karlsruhe to protect the German people from the "creative accounting" of the French, Italian and other governments. He has called for an injunction preventing tha Bonn government from giving its approval to the introduction of the euro when the founding members are chosen in May 1998.

Mr Heim's complaint was lodged before Bonn announced that it was considering the sale of extra Deutsche Telekom shares and the revaluation of Bundesbank reserves to help it meet Maastricht debt and deficit criteria. *Peter Norman, Bonn*

Poles back new constitution

Poland's new constitution which underpins the economic and democratic reforms of the past seven years was approved by a slim majority in a referendum last Sunday, which saw a low 43 per cent turnout of the country's 28m voters.

The results published late on Monday sbowed 53 per cent supporting the constitution which was passed by a majority of 330,000 votes. The rightwing opposition, which is set to challenge the former communist-led government in elections this autumn, said they would amend a constitution which had failed to get the support of the majority of Poles, quoting low turnout figures.

The many rightwing parties led by the Solidarity trade union in Solidarity Electoral Action (AWS), said the new constitution had failed to make a clean break with the communist past. *Chris Bobinski, Warsaw*

Gas accord eludes EU

European Union energy ministers yesterday left open the option of holding a special meeting next month to try to conclude agreement on controversial plans to open the EU's $100bn-a-year gas market to competition.

Ministers meeting in Brussels yesterday made some progress, but failed to reach the hoped-for consensus on the broad framework for gas liberalisation. This might have left only the figures for the extent and timetable for market opening to be decided at a special session in June.

The Netherlands, holder of the EU presidency until the end of June, will decide within the next two weeks whether sufficient progress has been made to call another council of ministers on June 24. Officials say the meeting will take place only if there is a good chance of an overall agreement. *EU states have still* to agree on how the market should be opened to competition, and which customers would have the right to shop around for gas. *Neil Buckley, Brussels*

Danes put brake on economy

The Danish government will impose a brake on central and local government building activity, and in August will present a restrictive budget for 1998, in order to prevent the economy from overheating, Mr Mogens Lykketoft, the minister of finance said yesterday.

The government raised its GDP growth forecast for 1997 to 3.3 per cent compared with the winter's forecast of 2.9 per cent, with private consumption, business investment and exports all expected to show a bigger increase than expected. *Hilary Barnes, Copenhagen*

ECONOMIC WATCH

Spain boosts non-EU sales

Spanish exporters have taken advantage of favourable exchange rates to boost sales to countries outside the European Union by more than 30 per cent in the first quarter of the year.

The success of non-EU exports caused the country's overall trade gap to shrink by 22 per cent to Pta471bn ($3.3bn), according to economy ministry figures. The ministry said the US dollar's recent high level was "a crucial factor" aiding Spanish competitiveness in fast-growing overseas markets.

Total exports climbed almost 15 per cent from a year earlier to Pta3,451bn. This was after a sharp 22 per cent March increase, led by food products. Imports, which showed an 8.5 per cent quarterly rise to Pta3,922bn, also accelerated in March with a 16 per cent increase over the same month last year. This was a sign, the ministry said, of the pick-up in Spanish consumer demand and investment.

Trade with EU partners, which broke briefly into surplus in January, showed a quarterly deficit of Pta103bn, up 13 per cent. Imports from the EU rose at the same rate as Spanish exports – just over 9 per cent. *David White, Madrid*

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NEWS: EUROPE

Opposition in Serbia under threat

By Guy Dinmore in Belgrade

Serbia's opposition coalition, which forced the government to retreat after three months of mass demonstrations earlier this year, was on the brink of collapse yesterday over its failure to agree on a candidate for the republic's presidential election.

Bitter personal disputes between the three leaders of Zajedno (Together) could lead to the formal break-up of the coalition and dilute the opposition vote, handing ultimate victory to President Slobodan Milosevic's ruling Socialist party.

Mr Vuk Draskovic, nationalist leader of the Serbian Renewal Movement, yesterday accused Mr Zoran Djindjic, his coalition partner and head of the Democracy party, of holding secret talks with the Socialists and state security bosses and urged him to resign as mayor of Belgrade.

The ultra-nationalist Serbian Radical party, headed by the former paramilitary leader Mr Vojislav Seselj, said it would call a vote to remove Mr Djindjic at a city assembly meeting tomorrow. Mr Djindjic could be ousted if he fails to secure the support of Mr Draskovic's 34 representatives.

Mr Draskovic accuses Mr Djindjic of failing to honour a commitment to back him as Zajedno's candidate in the forthcoming election. "I last met Djindjic several weeks ago," said Mr Draskovic. "He has been very busy meeting top representatives of the Socialist party. He has no time to meet me."

The Belgrade mayor said it was too early to decide on a candidate. Apart from his contacts with the Socialists, he had been holding talks on forming an alliance with other centrist parties and Mr Milan Panic, a Californian-based pharmaceuticals magnate who was prime minister of Yugoslavia in 1992. Mr Djindjic also has the backing of Mrs Vesna Pesic, leader of the Civic Alliance, the smallest party in Zajedno.

Belgrade newspapers are speculating that Mr Draskovic and Mr Seselj will forge a rightwing alliance, along with Mr Boguljnb Karic, a businessman.

The US government is increasing pressure on Mr Franjo Tudjman, the Croatian president, whom Washington accuses of reneging on pledges to allow the return of Serb refugees, writes Anthony Robinson.

Mr Robert Gelbard, President Bill Clinton's special envoy, complained of a "fundamental difference of views between us" after raising with Mr Tudjman in Zagreb yesterday issues arising from Croatian non-compliance with the Dayton peace accords. Washington is insisting on the right of all Serb refugees to return home. Mr Tudjman has called this "unreasonable".

Croatia Survey, Separate Section

Moscow and Kiev poised to take plunge

Signing a political treaty represents a huge political step. **Chrystia Freeland** explains

Fresh from the goodwill and glitter of this week's Nato summit, the Russian leadership is heading for another round of bargaining. This time the issue is more contentious, but equally critical – Russia's relationship with neighbouring Ukraine.

Mr Victor Chernomyrdin, the Russian premier, is due to arrive in Kiev, the Ukrainian capital, today, and Mr Boris Yeltsin, the Russian president, is scheduled to touch down on Friday as the two Slavic giants make a bid to sign a much postponed political treaty.

In both Kiev and Moscow the treaty – which would be the Kremlin's first formal acknowledgement of the independence and borders of its largest western neighbour – is seen as a vital step in the political evolution of the two most populous states to emerge from the collapse of the Soviet Union.

"Relations with Ukraine are Russia's most important foreign policy issue," said Mr Andrei Piontkovsky, director of the Moscow-based Centre for Strategic Studies.

The treaty is so significant and so sensitive because of the complex relationship between Ukraine and Russia. Russians, who like to trace their own history to the ancient Kievan Rus state, have an intense emotional connection with their neighbour. Acknowledging Ukraine as a sovereign state would at last cut the umbilical cord between the new Russia and its imperial past.

On the eve of the premier's trip to Kiev, the omens were mildly encouraging. Mr Leonid Kuchma, the Ukrainian president, said yesterday he had "high hopes" the agreement would be signed.

Russian officials in Moscow were equally upbeat and said the prime minister and president intended to follow through with their promised journeys south.

Of greater significance, perhaps, are tentative indications that Kiev and Moscow are close to a deal on the Black Sea fleet, the rusty navy which has become a symbol for the larger political issues which divide the two countries.

The fleet itself is not at issue. Rather, Ukraine and Russia are wrangling over control of and access to the port of Sevastopol, an issue which touches upon the central question of Ukraine's territorial integrity.

Leonid Kuchma: high hopes

This week, both Ukrainian and Russian officials suggested Moscow may have backed down on its demand for some sort of lingering territorial claim to the city. Instead, the agreement on the table now would allow both the Ukrainian and Russian fleets to be based in Sevastopol, with Moscow paying Kiev to lease its facilities.

But these arcane quibbles over the Black Sea fleet are really only a proxy for a more fundamental issue: is Russia prepared to accept Ukraine, its sentimental, Slavic heartland, as an independent nation?

Until Mr Yeltsin puts his pen to the friendship treaty in Kiev, Ukraine is likely to remain dubious. Mr Volodymyr Horbulin, the Ukrainian national security chief, points to the repeated claims by senior Russian politicians on Ukrainian territory as one reason for anxiety.

In Kiev, his views are widely shared. "I think that Russia still has as its strategic goal returning Ukraine to its sphere of influence," Mr Serhii Holovatyi, Ukraine's influential justice minister said in an interview.

"That is why Russia does not *de jure* recognise Ukraine as an independent state."

Ukrainian leaders also warn that if Russia postpones this, the seventh attempt to sign a friendship treaty, the already fragile relations between the two states are likely to deteriorate further.

"It would signify a worsening of the political climate in eastern Europe," Mr Horbulin said.

Failure to conclude a deal this weekend would also probably intensify Ukraine's effort to seek strong allies able to soften Russia's tremendous influence. Kiev is already reaching out to the west, and has been an enthusiastic supporter of Nato expansion.

It is also at the heart of a number of loose alliances coalescing along Russia's periphery among former vassal states eager to secure their independence.

Ukraine has increasingly close links with Poland and the Baltic states. Indeed, yesterday the five countries ended a summit with a joint statement on the state of democracy in Belarus, which is moving towards cementing a reunion with Russia.

Moreover, Kiev is emerging as the informal leader of a group of former Soviet republics, including Georgia, Azerbaijan and Moldova, keen to find a counter-balance to Russia.

Paradoxically, it could be this tilt away from Moscow which will finally drag Russia into signing a political treaty with Ukraine.

"The more Russia conducts imperialist policies, the more Ukraine will become a centre of resistance," Mr Piontkovsky said. "This treaty is our last possibility of keeping Ukraine from moving to the west."

Deutsche Post warns Bonn on privatisation

By Ralph Atkins in Bonn

Mr Klaus Zumwinkel, chairman of Deutsche Post, said yesterday that the planned privatisation of the German postal group – expected in 1999 or 2000 – would not be possible unless the government retreated over proposals to restrict its monopoly powers.

Deutsche Post faced additional costs compared with would-be competitors because of legal duties to provide a basic level of service and to meet pension liabilities, Mr Zumwinkel argued. "If the new post law comes in as it stands, privatisation of Deutsche Post is not do-able," he said.

His warning reflects concern at Deutsche Post over proposals to restrict its monopoly to letters weighing less than 100g for a five-year transitional period – compared with European Union guidelines suggesting a 350g limit. Bulk mailing would be opened completely to competition.

Mr Zumwinkel's comments come as the Bonn government seeks to accelerate its privatisation programme to plug expected budget shortfalls up to 2000. The planned post law, replacing a law which expires at the end of this year, was tightened up after lobbying from the market-orientated Free Democratic party, junior member of the governing coalition.

Although Deutsche Post could not prevent privatisation if the government decided to press ahead, it hopes the law will be watered down in the opposition-dominated Bundesrat, the second chamber of parliament.

Earlier this year, the European Commission began investigating allegations that Deutsche Post was using its dominance in the letters market to cross-subsidise parcels.

Speaking at Deutsche Post's annual results meeting, Mr Zumwinkel disclosed the parcel service made a loss last year of DM1.4bn ($826m), down from more than DM2bn the year before. But he refuted the cross-subsidy argument, saying that after taking account of additional duties imposed on Deutsche Post "we are not in a loss situation".

The parcel service is expected to report a loss of less than DM900m this year and return to profit in 2000.

Overall, Deutsche Post said pre-tax profits last year (calculated on a different basis from the parcel service losses) rose to DM567m, compared with DM364m in 1995. Turnover was roughly stable at DM26.7bn with a small increase in letter post compensating for a decline in the parcel service.

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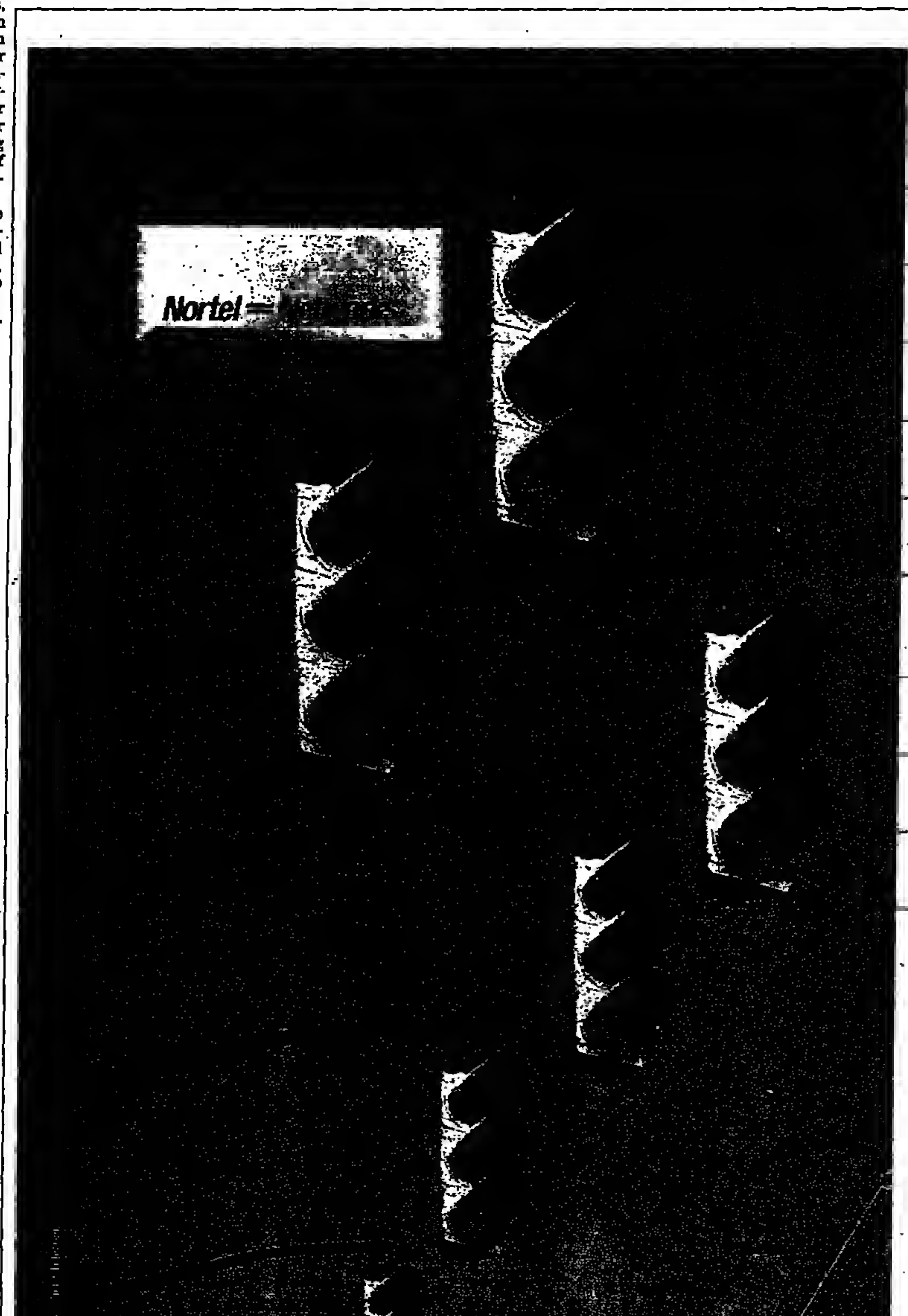

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Malaysia plans currency futures market

By James Kynge in Kuala Lumpur

Malaysia plans to launch a currency futures contract in the ringgit and other regional currencies as part of an attempt to create south-east Asia's leading futures exchange, it indicated yesterday.

The currency futures initiative could include the Thai baht, Indonesian rupiah and Singapore dollar.

The executive chairman of the Malaysia Monetary Exchange (MME), Mr Syed Abdul Jabbar Shahabudin, said the move followed an announcement earlier this month by the New York Cotton Exchange (NYCE) that it would launch futures trading in the baht, ringgit, rupiah and Singapore dollar from the end of June.

All four currencies are due to be traded against the US dollar.

The MME already trades an interest rate futures contract denominated in ringgit, but the NYCE plan would mark the first time south-east Asian currency futures are traded on a formal exchange anywhere in the world, officials said.

Mr Syed said regional countries were sensitive to the prospect of increased volatility in the trade of their currencies, as shown by the attack on the Thai baht last week, but no country had the authority to stop the NYCE fulfilling its plans. Malaysia might, therefore, try to turn the situation to its advantage.

"Obviously, if it (the ringgit) is traded overseas but is not traded in this region, it looks e bit awkward, because the players of the market are here," Mr Syed said.

Asked if the MME might consider launching futures trade in the baht, rupiah and Singapore dollar, he said: "If the opportunities are there, we are positioned to take advantage of the opportunities... but we always take into consideration the sensitivities of our neighbours."

The four largest economies of south-east Asia regard exchange rate stability as a cornerstone of economic policy. But rising merchandise trade, plus the emergence of Singapore as the region's financial centre, has rapidly increased regional currency trade and made it more difficult for central banks to influence exchange rates.

The attack on the baht was successfully repulsed but currency dealers believe there may be more. The launch of currency futures, though they provide an important hedging mechanism, would increase traded volume and weaken the power of central banks in the market.

Singapore's long-standing opposition to the internationalisation of its dollar derives from the fact that controlling the exchange rate is the import-dependent island's main weapon against inflation.

The MME has separate plans to co-operate with the NYCE to trade a range of other currency futures contracts in dollar/sterling, US dollar/mark and US dollar/yen towards the end of this year.

All these contracts would be traded 24 hours a day between New York, Kuala Lumpur and Dublin.

The ultimate aim is to compete with the Singapore International Monetary Exchange (Simex), currently the region's top futures exchange, which, however, does not offer a single contract based on the economies of its south-east Asian neighbours.

ASIA-PACIFIC NEWS DIGEST

Battle looms to head Congress

Mr Rajesh Pilot, a former air force officer and junior government minister, yesterday entered the race for the presidency of the Congress party, setting up a battle for control of India's oldest political machine. Mr Pilot launched a campaign targeted at the current party president, Mr Sitaram Kesri, and called for young blood and a drive to clean up a party tainted by corruption.

By throwing down the gauntlet for the June 9 election of Congress president, Mr Pilot assured the first public leadership contest in 20 years in a party accustomed to selecting leaders in backroom deals. Mr Pilot is considered an outspoken, ambitious leader with modern ideas and strong roots in village politics.

Mr Kesri took charge in September last year, four months after Congress suffered its worst electoral defeat. Congress, which has ruled India for all but five years since independence in 1947, now lends crucial support to the centre-left United Front coalition of the prime minister, Mr Inder Kumar Gujral. *Reuter, New Delhi*

Australian investment strong

Australia's private business sector spent more than expected on new capital investment during the first quarter of 1997, but data published yesterday suggested growth in capital expenditure in 1997-98 will be much more modest. Estimates of total new capital expenditure rose by 6.5 per cent in the March quarter, after a revised fall of 1.6 per cent in the previous three months.

Investment in buildings was particularly strong, and also in the mining sector. Analysts said the latest data indicated that capital expenditure for the 1996-97 financial year overall would probably be up by about 11-12 per cent – slightly higher than previously anticipated. But a survey of investment intentions indicated e sharp fall in 1997-98. *Nikki Tait, Sydney.*

UN presses Burma on rights

The United Nations high commissioner for human rights has called on Burma's military government to "respect fully international norms of human rights and principles", after the government prevented a large gathering of officials and members of the opposition National League for Democracy (NLD).

Mr Ralph Zacklin said he was concerned that the rights of the NLD leader, Ms Aung San Suu Kyi, were being "limited". Mr Zacklin said he had invited Burma's ambassador to the UN in Geneva "to discuss these and other human rights issues". That meeting is expected to take place tomorrow. *Ted Bardacke, Bangkok*

HK plans July 1 fireworks

Hong Kong's business community revealed plans yesterday for a HK$100m (US$13m) extravaganza of fireworks, lasers, an illuminated barge flotilla and giant balloons to mark the first day of Chinese rule on July 1. Hong Kong, a British colony for 156 years, reverts to China at midnight on June 30.

Organised by the Better Hong Kong Foundation, an affiliation of Hong Kong's billionaire business people, the fireworks show will also feature what the organisers bill as the world's largest outdoor karaoke show. More than 30 big businesses have lined up to sponsor the event, including key representatives of the British colonial establishment. *Reuter, Hong Kong*

India consumer durable market 'set to treble'

By Mark Nicholson in New Delhi

The true size of India's market for consumer durables is considerably smaller than the country's often-touted 250m-strong "middle class", but is on course to treble by the year 2006, new research from the National Council of Applied Economic Research, a leading Indian think-tank, shows.

The unpublished research pnts the size of India's "consuming class" at 29m households, and says the number will reach 91m by 2006.

The study, based on the most thorough survey of spending patterns undertaken in India, identifies the "household", rather than individual consumers, as the chief purchasing unit for durables such as washing machines and television sets. It puts the average household size at 5.7 people.

The council'e estimates square with the findings of newly arrived foreign consumer goods companies in India, many disappointed with demand for goods such as colour TV sets, video recorders and white goods.

One senior Sooy execntive said recently that, from their earlier estimatee, India's market for TV eets and VCRs was perhaps 150m: the company now believed the market nearer the size of Vietnam's for such products.

The council's projection assumes India's economy will grow by an average 6.7 per cent a year from now to 2001, roughly in line with present rates, and by 7.8 per cent from then to 2006.

Its eetimates are also based on data on actual consumer purchases and ownership from a decade of household epending studies undertaken by the council, where 300,000 households were surveyed annually.

Based on actual purchases rather than income alone, it defines the "consumer class" of 29m households as that "buying the bulk of consumer goods marketed in the country". Household income for this gronp is put at $1,285-$6,142 a year.

Above this, it finds a small group of 1m "rich" households, with incomes exceeding $6,142, which buy "the most expensive consumer products". It foresees a fall in bouseholds with incomes below $415, which cannot afford consumer goods.

Kim tries to calm poll row

By John Burton in Seoul

A week after his son was arrested on corruption charges, Mr Kim Young-sam, the South Korean president, is embroiled in a new political controversy over his 1992 election campaign finances.

Mr Kim yesterday promised to make a statement on Friday on the issue, including possibly offering an apology for exceeding legal campaign spending limits in 1992 and proposing electoral finance reform laws.

But he is expected to stop short of opposition demands that he disclose the size of the 1992 campaign fund and its contributors hy claiming that complete financial records do not exist.

The campaign fund issue is linked to the collapse of the Hanbo steel group in January which uncovered a bribes-for-loans scandal and led to the arrest of Mr Kim's son for influence-peddling.

The opposition claimed Hanbo contributed up to $100m to Mr Kim'e campaign in return for government help in securing nearly $6bn in bank loans after the election.

It is also suspected that a political slush fund managed hy the president's son included money left over from the 1992 campaign.

Public outcry over the campaign fund was triggered last week when the president cancelled plans to address the issne as he sought to avoid more political damage to his beleaguered administration.

It also threatened to expose him to legal charges for campaign violations after he leaves office early next year.

An opinion poll yesterday in Dong-A Ilbo, a leading newspaper, said 83 per cent of Koreans refused to accept Mr Kim's decision not to reveal the amount of money he spent in 1992 election, while 65 per cent wanted the matter to be pursued even after Mr Kim steps down.

Mr Kim also angered the opposition by launching an anti-corruption drive last week that appeared aimed at local government officials affiliated with the two opposition parties.

The campaign fund controversy threatens to dominate this year's presidential election despite other pressing issues, including an economic slowdown.

The main opposition party, the National Congress for New Politics, has eagerly sought to exploit the controversy because it promises to improve its slim chances of winning the presidential election.

The probable government candidate, Mr Lee Hoi-chang, holds e firm lead in the presidential race. But his "Mr Clean" image was damaged after be withdrew his earlier demand that Mr Kim disclose full details of the campaign fund.

Analysts suspect that Mr Lee has struck a deal with Mr Kim in return for his support in gaining the presidential nomination of the ruling party.

Despite the latest controversy, Mr Kim is unlikely to be forced to resign, with two-thirds in yesterday's opinion poll eaying they opposed such a move.

Presidential aides argue that Mr Kim ehould be spared any further punishment because he succeeded in establishing the rule of law and public accountability of officials during his administration, the first civilian one after three decades of military dictatorship.

"He has introduced a degree of democracy that makes it possible for even the son of a president to be indicted," said one government official.

Bnt critics contend that the arrest of the president'e son occurred only after a public protest over an earlier investigation by the prosecution that was widely seen as a cover-up.

Kim Young-sam: may apologise over poll fund limits *Reuter*

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Flutter in the arms trade as Philippine deadline looms

Justin Marozzi on Manila's defence procurement ambitions

Recent stand-offs between the Philippines and China around disputed islands in the South China Sea may be damaging for regional stability hut for defence companies around the globe they augur well: the Philippines is embarking on its first procurement programme.

Senior Philippine air force officers were in Sweden last week inspecting the Gripen, a joint venture fighter aircraft made hy Saab and British Aerospace, before travelling to France to see the Mirage 2000-5 and Israel for the Kfir 2000.

The rush of sctivity comes before the deadline on Friday, when foreign companies must have responded to Manila's requests for proposals for a squadron of 24 multi-role fighter aircraft and up to six new air defence radar systems worth $150m-$200m. Procurement officials are expected to whittle down competitors to a shortlist of three.

These are the first concrete steps in the modernisation of the Armed Forces of the Philippines. An ambitious 15-year $6.24hn programme, passed by Congress last December, it is designed to make up for the country's long years of reliance on the US for external defence.

The original modernisation shopping list, introduced to Congress in 1994, was even more ambitious. Congress shortened the list hy allowing for a further $6.3bn spending within the period if the government is able to find new sources of financing.

"The major defence exporting countries have all beaten e path to Manila because they can see there is e major requirement and there is mooey available under the modernisation plan," says a western defence ettaché. "They are all a little wary, however, because defence cootracts take time and the Philippines has no experience in procurement."

As a result of dependence on the US and a concentration on internal counter-insurgency as the main threat to national security, much of the country's naval and air force hardware is second world war vintage. At present, the average age of a naval vessel is about 30 years and front-line aircraft more than 20 years. This will improve with the delivery in July of three second-hand British Peacock patrol vessels sold from Hong Kong.

With the military threat posed by Moslem and communist guerrillas receding – in August the government signed a peace deal with the MNLF, the largest Moslem rebel group, ending e 24-year conflict – Manila is reorienting the services towards a capability-based force.

The navy will initially receive the largest share of resources. "I have given top priority to ... the Philippine navy," President Fidel Ramos told reporters recently. "The Philippines is e maritime country surrounded by nothing but maritime borders." Losses from illegal fishing by vessels from China, Taiwan, Japan and Korea – which the country is at present incapable of monitoring effectively – run at an estimated $1.5bn a year.

According to figures supplied by the navy, it will receive 72bn pesos ($2.7bn), the air force 65bn pesos and the army 25bn pesos during the first five years. Beyond that, the navy's long list of requirements includes 24 patrol craft, 16 patrol boats, a further six offshore patrol vessels (OPVs), six corvettes, three frigates, five seaplanes, nine multi-purpose belicopters, three mine warfare vessels, four transport ships and four tugboats.

These will go towards making the navy one of the largest and most up-to-date in the region, along with Thailand and Indonesia. Procurement officials are now shortlisting companies from Korea, Spain, Germany, US, Australia, France and the UK for the OPVs.

On the air force side, the priority for the first five years is the acquisition of a squadron of 24 fighter aircraft with air-to-air and air-to-surface capabilities, with another squadron planned when resources allow. The choice of fighter will come down to the US F-18 or F-16, the Russian MiG 29, the Anglo-Swedish Gripen, Mirage 2000-5 from France, or the Israeli Kfir 2000. "The intention is to bring back some of the air defence credibility we had so we can detect and identify intrusions into air space and sea areas," said General William Hotchkiss, commanding general of the air force, in a recent interview.

As one of the regiun'e most unruly democracies, the Philippines has encountered procurement teething prohlems and long delays avoided by its more authoritarian neighbours such as Indonesia, Singapore and Malaysia.

Signs of inexperience emerged when the navy issued specifications for the six OPVs. They were not properly defined and the navy received far too many responses for careful technical evaluation.

The long-running question of the extent to which contracts are binding also looms after challenges to contracts awarded in the recent Manila Hotel and Subic Bay privatisations and a contract won in 1995 by the British defence group GEC-Marconi.

Officials privately concede exchange of contracts by the end of the year is a formidable challenge. After that time, with presidential elections in May and a constitutional ban on new contracts within three months of the polls, firm decisions will have to wait for a new administration.

Philippines: defence modernisation

Equipment acquisition	Years	5-10 Years	Total	Original plan
Multi-role fighter	[illegible]	12	24	36
Surface attack aircraft	6	6	12	24
Maritime patrol aircraft	4	2	6	6
Radar	5	1	6	6
Search and rescue aircraft	2	1	3	12
EW/Elint*	1	1	2	2
Communication & control	1	–	1	2
Heavy lift	–	2	2	4
Light lift	–	3	3	12
Point defence system	2	6	8	20

Source: Flight International *Electronic warfare/Electronic intelligence aircraft

The Philippines has fuelled the growing South China Sea dispute with Beijing by arresting 21 Chinese fishermen off a disputed rock in the area, prompting calls for their immediate release, according to officials yesterday, writes Justin Marozzi in Manila.

News of the arrests, made around the Scarborough shoal e week ago, coincides with talks between the Philippines and China in Beijing designed to improve relations. "The Chinese side asks the Philippine side to respect history, to respect facts and to respect ... international laws and stop as soon as possible all actions violating China's territory," Mr Tang Jixian, undersecretary for foreign affairs, told Mr Rodolfo Severino, his Philippine counterpart, according to the Chinese People's Daily.

Gephardt slams China 'appeasement'

By Nancy Dunne in Washington

Mr Richard Gephardt, Democratic leader in the US House of Representatives, yesterday attacked the Clinton administration's "failed" China policy as more appeasement than "engagement", positioning himself for a tilt at the presidency in 2000.

Mr Gephardt repeated that he would oppose renewal of China's Most Favoured Nation trade status – which gives it the same tariff levels as most other nations – because of its human rights abuses, protectionist trade policies and arms sales to outlaw nations.

But his rhetoric, in a speech to the Detroit Economic Club, was harsher than in the past, a sign of frustration with the administration's rightward shift and of his intention to compete for his party's presidential nomination. In those primaries he is expected to face Mr Al Gore, the vice-president.

"We cannot appease China's leaders into honouring human rights. But we do have the power and potential incentives to seek and achieve change," he said. "They cannot afford to jeopardise this market. But they simply do not think we have the courage to act."

Mr Gephardt has been distancing himself from the administration for some time. Last week he strongly denounced the balanced budget deal agreed with the Republicans as "a budget of deficits: a deficit of principle, a deficit of fairness, a deficit of tax justice and, worst of all, a deficit of dollars".

He will also lead opposition to the administration's request for a broad authority to negotiate a host of free-trade deals unless it agrees to include strong labour rights and environmental provisions.

Mr Gephardt's attack on the China policy was consistent with his efforts to link trade and human and worker rights. This has endeared him to labour organisations, whose support in the presidential primaries is crucial.

"The administration has finally placed sanctions on Burma as punishment for its odious human rights record, yet it refuses to make the same strong statement when it comes to similar circumstances in Beijing," he said. "The people of the world yearn for a consistent American human rights policy."

He called for a policy of "firm engagement" with China, saying access to the US market was a privilege Beijing had forfeited by its human rights and trade policies.

"What have we gained by trafficking with a tyranny that debases the dignity of one-fifth of the human race?" he asked. "What is gained by a policy that sees all the evils and looks the other way? What is gained by constructive engagement with slave labour?"

He said US business was being "blackmailed" by Beijing into building factories in China and transferring technology.

Peru criticised for violations of human rights

By Sally Bowen in Lima

Peru, Colombia and Guatemala have been criticised by the Organisation of American States for violations of human rights, putting Lima in particular in the spotlight as it prepares to host the 27th general assembly of the OAS this week.

The InterAmerican Commission on Human Rights of the OAS has just published its annual report for 1996. In it, the three countries are considered in violation of aspects of the American Convention on human rights, to which they and 22 other OAS member countries are signatories.

The commission's 15-page section on Peru highlights the failure to separate functions of the three branches of government – an increasing internal concern over recent months – and criticises the "undue interference" by the executive and the military in the work of the judiciary.

Another concern is the continuation, despite the marked decline in terrorist activity, of "state of emergency" regulations in 18.5 per cent of the country – 42.1 per cent of the population is affected. The commission says the suspension of civilian rights and control by the armed forces has effectively become "institutionalised".

The report also criticises the use of "faceless judges" in military courts, intended as an emergency counter-terrorist measure but prolonged last October for a year.

According to the commission, such conditions deny the accused trial by a "competent, independent and impartial" tribunal, as guaranteed by the American Convention. Due process is "seriously affected" and torture and the acceptance of confessions extracted under torture is commonplace, says the report.

Events referred to cover 1996 only. Were the report to include 1997 it would be harsher still, with the recent allegations of disappearance and torture of two female army intelligence agents, and moves by Congress which threaten the survival of Peru's new Constitutional Tribunal.

Peru, Colombia and Guatemala are all likely to challenge the Commission's conclusions at the general assembly. Meanwhile the foreign ministers and representatives of 34 countries will press ahead to establish the OAS as "the principal hemispheric forum for policies agreed in the wake of the 1994 Summit of the Americas", according to Peru's ambassador to the OAS, Ms Beatriz Ramacciotti.

Foreign ministers are expected to sign a "strategic plan for co-operation and solidarity". Over the next four years they will commit their governments to making a priority of combating poverty, improving education and focusing on sustainable development policies.

Climbdown alleged on clean air regulations

EPA is under fire after endorsing the less expensive option on dioxin emissions, reports Bruce Clark

A compromise by the US administration over the regulation of paper manufacturing has raised hopes among industry, and fears among ecologists, that the government may retreat on a larger dispute over clean air.

The Environmental Protection Agency has been accused of retreating after it endorsed the less expensive of two options for forcing paper companies to reduce their emissions of dioxins and other toxic substances.

In a step welcomed by the industry, the EPA is recommending to the White House that paper mills be obliged to change from the use of pure chlorine gas to chlorine dioxide in the bleaching process. Supporters of that approach say it will cost about $1.25bn and eliminate over 90 per cent of the noxious discharges from pulp mills.

A more ambitious proposal, mandating a process known as oxygen delignification, would have doubled the cost, while increasing the elimination of pollutants by a few extra percentage points. Weyerhaeuser, a West Coast paper company which has introduced delignification at many of its plants, said it "applauded" the EPA for promoting the more ambitious technology through voluntary incentives rather than compulsion.

But Mr Jerry Nadler, a Democratic Congressman from New York who reflects the strong environmentalist sentiment of many East Coast voters, said it was "very disappointing" that the EPA was prepared to accept some degree of dioxin emission.

He had been urging the agency to mandate chlorine-free paper production, arguing that the cost of $4bn would be easily recouped as consumers round the world insist on more environmentally sound products.

"International demand for chlorine-free paper is increasing, and the EPA's approach is very short-sighted," he said. "The EPA is in retreat."

Ms Carol Browner, the EPA chairman, has shown no sign of retreat in a series of gruelling appearances at congressional committees where she has been challenged over her proposals for much tighter clean air standards, which are due to be finalised in July. Yet speculation about a partial climbdown by the administration has grown after news that three White House agencies – the National Economic Council, the Office of Management and Budget and the Council on Environmental Quality – are to be involved in the clean-air deliberations.

Ms Browner is proposing tighter standards in respect of ozone. The plans have been attacked as excessive and unscientific by a broad coalition of manufacturing, mining and energy interests, prompting leading senators from both parties to call for a compromise.

If President Bill Clinton decides that these pressures have become unbearable, the involvement of economic strategists from the White House, whose perspective may differ from the EPA, would provide him with a dignified ladder to climb down.

Liberals just ahead in Canada

Canada's ruling Liberal party is set for a slim majority in next Monday's general election, according to the latest opinion poll, Bernard Simon writes from Toronto.

An Ekos Research poll suggested the Liberals will do best in Ontario, which accounts for a third of the 301 House of Commons seats.

According to the poll, the Progressive Conservative party, which was almost wiped out in the 1993 election, comes second overall, with the backing of 21 per cent of decided voters, compared to 38 per cent for the Liberals.

The separatist Bloc Québecois is just ahead in Quebec and the right-of-centre Reform party is the front-runner in British Columbia and Alberta.

Above: Jean Chrétien, prime minister, meets workers at Vancouver Airport on Monday. *Reuter*

Jamaican PM to strengthen Cuba ties

By Canute James in Kingston and Pascal Fletcher in Havana

Mr Percival Patterson, Jamaica's prime minister, starts a three-day visit to Cuba this week as part of what officials say is a deliberate strategy to improve relations with Havana.

The move emphasises the region's rejection of US policy, which seeks to isolate Cuba, and follows the visit last month by Mr Keith Mitchell, the prime minister of Grenada. Mr Owen Arthur and Sir James Mitchell, prime ministers of Barbados and St Vincent, will make similar official visits to Cuba this year.

"The visit is to discuss several issues of bilateral, regional and hemispheric concern," said Mr Patterson.

Caribbean leaders have persistently criticised the 35-year-old US trade embargo of Cuba and the more recent US Helms-Burton law which seeks to tighten the sanctions.

Integration of Cuba, rather than isolation, will bring about the political and economic changes which the US is seeking, regional officials say.

Caribbean businessmen, several of whom are accompanying Mr Patterson, hope to find markets and investment opportunities in Cuba. "Cuba is a large market by Caribbean standards," one businessman said yesterday. "They may not have a lot of money, but they pay their bills on time." Caribbean hoteliers have invested in Cuban resorts, and the island purchases a range of petroleum and soap products from its neighbours, while selling them construction materials, mainly cement.

Mr Patterson will receive a warm welcome from Cuba's leaders, who have stressed their interest in strengthening ties with Caribbean states as a way of countering US efforts to isolate Havana.

But Cuba's foreign minister, Mr Roberto Robaina, repeated Havana's position that Cuba would not accept any conditions, such as demands for political reform, in its dialogue, whether with individual nations or regional groupings like the Organisation of American States. "We don't like and we don't accept conditions," he said.

AMERICAN NEWS DIGEST

FCC chairman to step down

Mr Reed Hundt, chairman of the US Federal Communications Commission, is to step down as soon as the administration can find a successor. He is therefore likely to serve for at least another six months.

Mr Hundt, a Democrat and close friend of President Bill Clinton and Vice President Al Gore, has been a busy and controversial head of the FCC. During his tenure, the commission has taken several sweeping steps to implement legislation, issued the first licences for advanced digital television and presided over auctions of licences to use public airwaves. *AP, Washington*

Consumer confidence surges

US consumer confidence has surged to a 28-year high this month as Americans look forward to continued economic expansion, the Conference Board, a private business research group, said yesterday.

The board said its index of consumer confidence surged almost nine points to 127.1 in May, from an April reading of 118.5. "Consumers are not only upbeat about the current state of business activity, but believe the economy will continue to expand over the next six months," Ms Lynn Franco, associate director of the Conference Board's Consumer Research Centre, said.

Nearly 33 per cent of Americans said current business conditions were "good", up from less than 32 per cent in April. The percentage of people who feel "jobs are plentiful" rose to nearly 36 per cent in May from 31 per cent in April.

In addition, almost 19 per cent of US consumers believe business conditions will improve over the next six months, up from 16 per cent last month. *Reuter, New York*

Referendum backs Alarcón

The political position of Ecuador's President Fabián Alarcón has been strengthened after two-thirds of those voting in a referendum ratified his appointment by Congress last February. However, the president will now be under renewed pressure to implement lasting economic and political reform, and reduce congressional influence over his government.

Sixty-five per cent of voters backed Mr Alarcón, according to an exit poll. An even higher 74 per cent ratified the removal of former President Abdalá Bucaram by Congress in February after two days of national protests against his government.

The government is expected to take a harder line against striking public sector workers who had taken advantage of the planned referendum and doubts about the government's legitimacy. Referring to a long-running health workers' strike, Mr Alarcón said his approach would be "dialogue with firmness", but the government had already arrived at the limit of its tolerance.

Economic analysts expect the government's new mandate will also enable it to take tougher measures against the fiscal deficit and move faster with privatisations. *Justine Newsome, Quito*

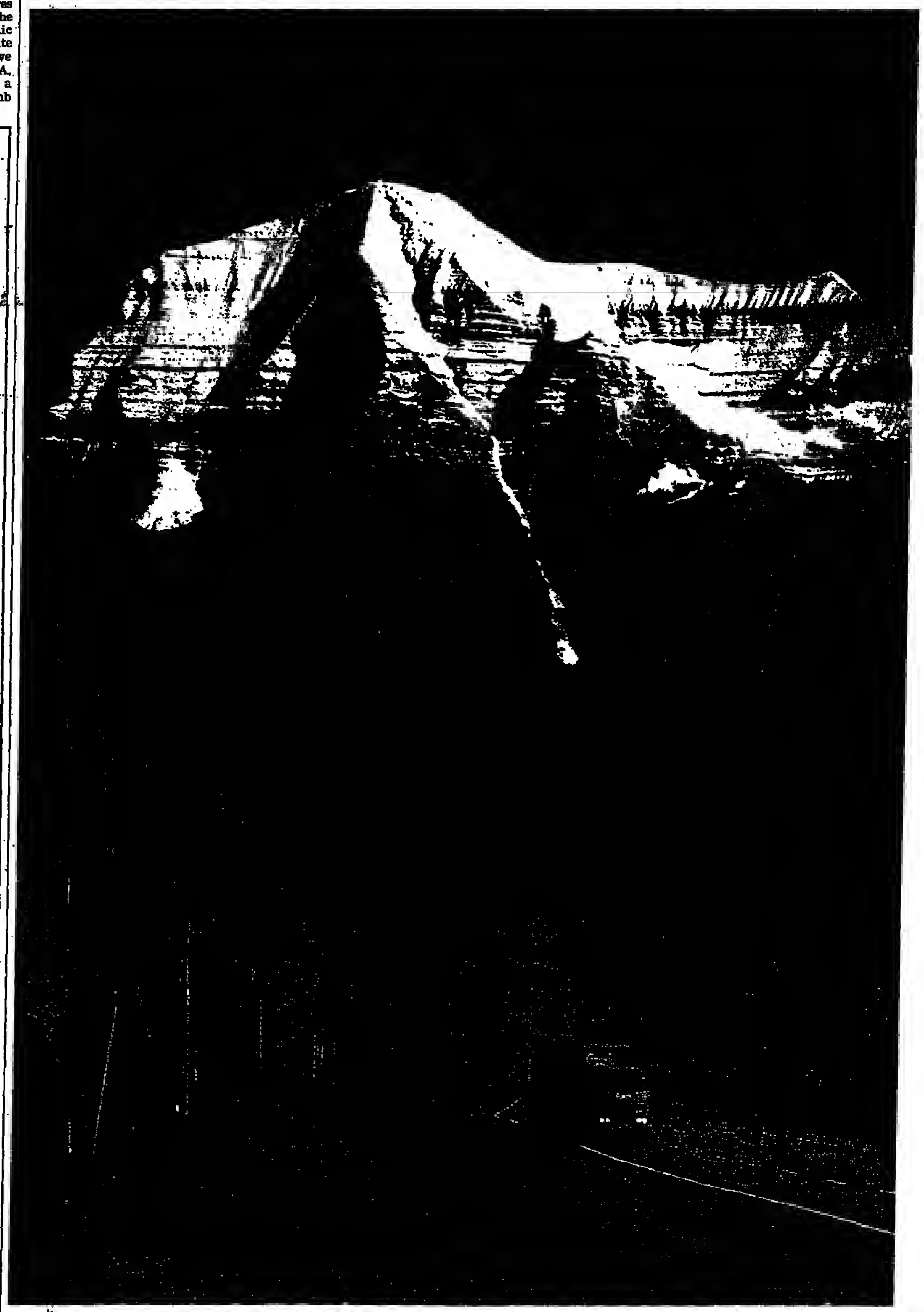
Paraguay police accused

The entire top level of the Paraguayan police force has offered its resignation after a newspaper investigation revealed police involvement in trade in cars stolen in neighbouring Brazil.

"I have ordered the arrest of the officers involved and an investigation to find out who was responsible," President Juan Carlos Wasmosy said.

Hours earlier, the police chief, Mr Mario Sapriza, handed in his resignation along with the the country's six regional commanders and 17 district commissioners.

Noticias newspaper carried out an investigation into the stolen car racket, with documents and photos proving police worked with thieves smuggling vehicles stolen in Brazil. The security forces have frequently been accused of involvement in smuggling everything from whisky to cocaine. *Reuter, Asunción*



Probably the best beer in the world.

Khatami cautious over change

By Robin Allen in Tehran

In his first press conference since his landslide victory last Friday, Iran's president-elect, Mr Mohammad Khatami, disappointed those who expected to hear him spell out specific proposals for "change", such as greater cultural and social freedoms for Iranians.

Instead he repeatedly stressed his Islamic credentials, the importance of the country's spiritual leader, Ayatollah Khamenei, and Iran's independence and security "within the framework of the Islamic constitution".

Answering questions on domestic and foreign policy issues, including Iranians' civil rights, relations with the US and Turkey's incursion into northern Iraq, Mr Khatami's statements were more notable for their studied vagueness than for any clear indication of the next government's priorities.

Only over future relations with the US, and his insistence on the territorial integrity of Iraq, did he depart from generalities.

"The US," he emphasised, "is the source of all the problems between us. We are sorry to see that the US's policies have always been hostile to our system and our revolution.

"Iran's independence and national interests are the basis of our relations with other countries," said Mr Khatami.

"There will be no progress (with the US) until it is willing to stop bringing harm to our country. Any change in these relations depends on them changing their policies. Unfortunately we do not see any sign of that," said Mr Khatami.

"We do believe that with Turkish military intervention differences between countries will not be settled. We are interested in negotiated settlement...and we do hope that tha Turkish government would arrive at the same opinion as us."

Khatami's statements were more notable for studied vagueness than for indicating the next government's priorities

Mr Khatami left open the possibility, unprecedented in Iran, of a woman serving in his cabinet.

But he was vague on the possibility of any greater degree of intellectual or cultural freedoms for Iranians, simply observing "that all of the rights and freedoms that are defined within the framework of the (Islamic) system should be observed."

According to senior western diplomats, Mr Khatami has no choice but to be vague because the fundamental problem in Iran is the absence of a reliable legal framework on which bills can be passed by the *majlis*, the Iranian parliament.

Mohammad Khatami at his first press conference yesterday Reuter

Angolan army clashes with Unita

An Angolan army drive into areas held by the former rebel Unita opposition could endanger the country's fragile peace, diplomats and officials close to the peace process said yesterday, Reuter reports from Luanda.

"Apparently the army is moving into quite a number of places in Lunda Norta and Unita is fighting back," said one western diplomat, referring to a north-eastern province.

"This could be a special case where the military is trying to show what they can do, but they could very well repeat this in other Unita zones. This can't be good for the peace process."

The United Nations and Unita sources said over the weekend that the Angolan army had moved into areas controlled by tha former rebels in the country's diamond-rich northeast.

Unita reported dead and wounded civilians, some from artillery fire. The UN reported dead and wounded from the Angolan army.

UN officials said that the head of the UN peacekeeping force, Mr Alioune Blondin Beye, went to Unita's stronghold of Bailundo yesterday to discuss the crisis with the Unita leader, Mr Jonas Savimbi.

Unita, the National Union for the Total Independence of Angola, fought a 19-year civil war against the then Marxist government which erupted when the country gained its independence from Portugal in 1975.

The two sides signed a peace agreement in the Zambian capital, Lusaka, in 1994.

In April Unita entered into a power-sharing arrangement with the government, thus fulfilling one of the main goals of the Lusaka accord and of a 6,000-plus UN peacekeeping force.

INTERNATIONAL NEWS DIGEST

Taliban in new clashes

Heavy fighting has broken out in Mazar-i-Sharif, Afghanistan, between forces of General Abdumalik who occupied the city on Saturday, and Taliban fundamentalist forces allowed in on Sunday afternoon. The Taliban, up to 1,000 strong, occupy the area around the Sakhijan Mosque in the city centre while Gen Abdumalik's forces, primarily a unit known as 511, control areas surrounding the city, including access to it.

Local residents say it was a decision by 511 to switch sides in midweek that tipped the scales in favour of Gen Abdumalik after he decided to revolt against General Dostum on Monday. Gen Abdumalik's forces had initially allied with the Taliban in an effort to topple Genl Dostum. Russia and several central Asian states yesterday warned the Taliban not to break across Afghanistan's border with the former Soviet republics, following a meeting to discuss the issue in Moscow.

"Russia and its central Asian partners are seriously worried by the potential threat to the southern borders of the CIS (Commonwealth of Independent States, a loose alliance of 12 former Soviet republics)," Mr Gennady Tarasov, a foreign ministry spokesman, said yesterday.
Charles Clover, Uzbekistan, Chrystia Freeland, Moscow

Call for check on aid funds

Norway has asked the Palestinian Authority (PA) to explain how public funds financed by international donors were allegedly misused by government officials. The move followed a report by the PA's auditing office that claimed $323m, or 40 per cent of the 1996 budget, had been siphoned off, some allegedly into personal accounts.

Donors yesterday said Norway's request could lead to other countries seeking greater accountability and transparency over how funds are allocated to PA projects. Since September 1993, donors have pledged $3bn over five years. Of these pledges, about 78 per cent has been committed to investment, technical assistance and transitional support. *Judy Dempsey, Jerusalem*

Sierra Leone coup protests

Nigerian troops have reinforced Sierra Leone's airport, and leaders of a weekend coup yesterday expressed concern about talk of a Nigerian counter-attack. Protests against the coup were reported in the southern city of Bo, where the Kamajor civilian militia loyal to President Ahmad Tejan Kabbah is ignoring an order to disband. There were also reports of clashes in the eastern town of Daru. The new army rulers said they had reopened land, air and sea access. *Reuter, Freetown*

OECD boosts Russian ties

The Organisation for Economic Co-operation and Development (OECD) yesterday formally set up closer ties with Russia to help in the country's economic transformation process. Mr Don Johnston, secretary-general of the OECD, and Mr Yevgeny Primakov, Russian foreign minister, signed a protocol setting up a liaison committee as a precursor to eventual Russian membership of the OECD.

Ministers attending the annual OECD meeting agreed Russia would be welcome to join the 29-nation club of the world's most developed nations, though without special concessions. *Wolfgang Münchau, Paris*

US to strengthen ties with African states

By Nancy Dunne in Washington

The Clinton administration is planning annual ministerial meetings with selected African governments which adopt bold growth-oriented policies, a senior US official said yesterday in Abidjan.

Mr Lawrence Summers, deputy treasury secretary, said the US wanted to re-orient its policies to create strong trade and investment links in sub-Saharan Africa.

To do this, "we need to ensure that our government officials who meet with their African counterparts are not just those of our aid agency".

The annual meetings will include trade, commerce and finance ministers.

Mr Summers is in Abidjan attending an African Development Bank symposium on private sector development. This follows the announcement in April of a US economic recovery programme for the region that stresses trade and investment rather than aid.

"More aid cannot be the key to sustainable rapid growth in Africa," Mr Summers said yesterday, according to a speech text issued by the treasury.

"Instead, what we have seen around the world is that countries prosper when they earn their external resources by adding value and exporting, or by creating an alluring environment for private capital."

He said that when African countries adopted the same sort of growth policies as Chile and Asia, they grew rapidly.

Also, they must avoid "the three pitfalls" of civil war, macroeconomic instability and misallocation of resources, he added.

He cited a recent study which found that only a quarter of the region's population lived in countries that avoided those pitfalls in 1995. But that group averaged 3.2 per cent per capita growth.

"Whatever the problems of growth in Africa, they cannot be traced to lack of official external support," said Mr Summers.

In 1996, the region received $15bn in development finance, but only $12bn in private capital flows. By contrast, Latin American attracted $78bn in private capital.

The US would encourage further trade with Africa by increasing the number of goods eligible for duty-free treatment from about 4,000 to about 5,800.

For countries embarking on trade reform, the US is prepared to offer market access for "several sensitive products, such as textiles and leather goods.

"In the future, as appropriate, the US will be open to pursue free trade agreements with the strongest performing, most growth-oriented sub-Saharan African countries."

US foreign aid will be focused on efforts promoting trade and investment. It will devote up to $25m a year to promote trade and transportation protocols, harmonisation of investment policies and strengthening of regional business associations.

EU, US seek to cut red tape

By Guy de Jonquières in Paris

US and EU negotiators were last night making a last-ditch effort to agree a plan to cut red tape on $40bn of annual transatlantic trade, in time for today's meeting in The Hague between US President Bill Clinton and Mr Jacques Santer, president of the European Commission.

The proposed agreement would provide for mutual recognition of inspection, testing and certification of information technology products, telecommunications equipment, pharmaceuticals, medical devices and leisure craft. Reaching an accord is regarded as important to maintaining momentum of the Transatlantic Business Dialogue, which is designed to boost two-way trade and strengthen political relations.

EU and US officials said a meeting in Paris between Sir Leon Brittan, Europe's trade commissioner, and Ms Charlene Barshefsky, US trade representative, had made good progress in removing stumbling blocks which have delayed a final agreement since late last year.

"We don't yet have a deal in the bag, but there is moderate to high optimism that there will be an agreement tomorrow," a spokesman for Sir Leon said last night. "We are getting there," said Mr Stuart Eizenstat, US commerce under-secretary for international trade, who also participated in the talks.

EU officials said a big issue outstanding concerned the extent to which the US Food and Drug Administration could legally devolve authority for testing and inspection to European pharmaceuticals industry regulators.

Other differences have centred on the range of products to be covered in each sector, how far a deal would involve US states and cities and how much information each side would divulge on inspections of factories in each others' markets.

The officials said Sir Leon and Ms Barshefsky planned to continue negotiating by telephone overnight after yesterday's talks.

US, Canada restart talks over salmon

By Scott Morrison in Vancouver

The US and Canada have agreed to resume negotiations toward a Pacific salmon treaty after a breakdown in talks threatened to spark a trade war that could have affected bilateral military arrangements, the cruise line industry and Washington state's electricity supply.

Canadian officials announced that talks would resume on Friday after walking out of negotiations last week, claiming the US was negotiating in bad faith. The breakdown sparked a host of recriminations from both sides, the latest war of words in the often rocky trading relationship between the two neighbours.

Earlier this week Canada seized three US fishing boats off Vancouver Island to step up pressure on the US to settle the salmon dispute.

None of the figures involved was as outspoken as Mr Glen Clark, British Columbia's premier, who cancelled a provincial licence for a military weapons testing site frequented by US submarines.

The federal government owns onshore facilities and the actual waters, but the provincial government controls the 192 sq km seabed, which contains C$100m (US$73m) of test equipment.

Provincial officials said another possible measure would be to interfere with the flow of the Columbia River, running from British Columbia to Washington state, which is vital to producing hydroelectricity in the US Pacific northwest.

The US has "been extremely belligerent in these negotiations. I am not prepared to see the salmon fishery disappear. Someone has to...stand up for the country, even if Ottawa won't," Mr Clark had said.

The US State Department cautioned the province against retaliatory measures and suggested the Canadian withdrawal was an election ploy to show voters the government was standing up to its southern neighbour. Other officials threatened to levy heavy fees on Canadian fishing boats crossing Alaskan waters and on British Columbia-based cruise ships arriving in Alaskan ports.

Canada contends US fishermen catch too many salmon as they swim through US waters to breeding grounds in British Columbia. A 1954 treaty designed to protect salmon stocks and balance each country's catch lapsed in 1992 and has been replaced by one-year agreements that have so far prevented an all-out fisheries war.

But Canada, which netted C$250m in Pacific salmon last year, wants a new treaty to ensure each country catches a similar amount of the other nation's stock.

Over the past several years the balance has tilted toward US fishermen, whose catch of Canadian-spawned salmon has been about 5m fish more than the Canadian catch of US salmon.

Commercial fishing fleets in Alaska and Washington position themselves in US waters to intercept salmon as they return to their breeding grounds in Canada. Canadian officials contend US fleets have reaped a C$500m bonus from excessive catches over the past decade.

The issue is highly emotional in British Columbia, as the province feels the US is taking advantage of its efforts to conserve the region's salmon stocks, which include funding hatcheries and banning fishing at several sites where the indigenous populations are dwindling.

Politicians say jobs and the survival of some coastal communities are at stake, while scientists argue that excessive US fishing could lead to the extinction of some salmon species.

Clinton's 'middle way' limits options

By Nancy Dunne in Washington

US President Bill Clinton's decision late last week not to seek congressional authority to negotiate to trade liberalisation deals until autumn demonstrates the limits of his middle-of-the road strategy as it relates to trade deals.

The strategy – known as "triangulation" – places the president on a politically moderate third track between the conservative Republicans and liberal congressional Democrats.

It reached its zenith after Republicans gained the majority in Congress in 1994, and Mr Clinton began a poll-driven zigzag from left to right on issues ranging from raising the minimum wage to welfare reform.

"Triangulation" was in play as he negotiated the recent balanced budget deal, but when employed on trade matters, it has produced only deadlock.

So many members in both parties oppose trade liberalisation that to get it passed, the president must somehow broaden the centre.

In the short run, the administration wants to get clear of the coming contentious debate over renewal of China's trade status and polish off the balanced budget process before sending Congress a "fast track" proposal. Under fast track, Congress promises not to amend trade pacts, but to vote for or against them.

The authority is necessary if the president is to pursue his goal for hemispheric free trade and trade liberalisation in Asia.

The North American Free Trade Agreement was an early example of Clinton

The strategy of 'triangulation' places the president on a politically moderate third track

"triangulation."

The president embraced the commercial deal produced by the Bush administration, but negotiated "side pacts" on labour and the environment to attract Democratic votes.

These agreements have been so ineffective that many Democrats who would support new trade deals also are urging a "deepening" of Nafta to encompass real environmental upgrading and core labour standards. They want stronger provisions in any new pacts negotiated.

When the president visited Mexico earlier this month, six environmental groups – some of which had originally supported the pact – called on him to "fix" Nafta's "serious flaws," which have worsened air, water and solid waste pollution on both sides of the border.

Mr Richard Trumka, a senior official of the AFL-CIO, the umbrella labour organisation, urged him "to use this trip to look beneath the surface and assess first-hand how Nafta has failed to live up to its promises on both sides of the border".

Republicans say they need 80-90 Democratic votes to pass fast track. They have agreed to include labour and environment issues in the fast track, but only if they are not "directly trade-related".

What this means is not clear, but it is certainly not likely to be acceptable to Mr Richard Gephardt, House minority leader, who is emerging as one of the president's greatest headaches in Congress.

Mr Gephardt is not easily triangulated. He's preparing to run as labour's candidate for president in 2000 and has demanded strong labour and environment provisions in future trade deals.

His aides say Ms Charlene Barshefsky, the US trade representative, "in many hours of consultation with Congress over the shape of fast track, has not talked to the minority leader.

Mr Gephardt'a chief rival in 2000 will be Vice President Al Gore. Mr Gore, once a favourite of the environmentalists, has become the invisible man in fast track discussions.

France reopens wounds on cotton tariffs

Chirac has paid a high price for appeasing his country's industry lobby

Thanks to the intervention of President Jacques Chirac, France has successfully pressed for a fresb inquiry into whether the EU should impose tariffs on unbleached cotton exported from several Asian countries.

But Mr Chirac has paid a steep price for appeasing the French textile lobby, backed by Mr Philippe Séguin, outgoing Gaullist president of the French National Assembly. Several EU countries are unhappy abont what they see as French-driven politicisation of the anti-dumping rules. And Mr Chirac has little to show after his party's poor showing in last Sunday's first-round parliamentary elections.

Sir Leon Brittan, EU trade commissioner: searching for better definitions of the 'community interest'

The row over unbleached cotton – a basic component of textiles and clothing – is a case study in the politics of EU trade diplomacy. It offers a snapshot of the tensions between France and its closest partner, Germany, as well as tha pressures on Sir Leon Brittan, EU trade commissioner, as he searches for better definitions of the "community interest" in anti-dumping cases.

Originally, Sir Leon called for five years of dnties of up to 36 per cent on imports of unbleached cotton valued at around Ecu 550m ($634m) from China, India, Egypt, Indonesia, Turkey and Pakistan, albeit with a review clause. "The recommendation was border-line," says an aide to Sir Leon.

European cotton producers and weavers complained that cheap imports were threatening jobs in France, Spain, Portugal and Greece. But dyers and printers of fabrics, and Europe's home furnishings and clothing manufacturers, argued duties on fabric imports would hamper their ability to compete against imports.

Two weeks ago, just before representatives of the 15 member states prepared to vote on whether to follow the Commission's recommendation, the state of play was a 6-6 tie with three countries undecided: Austria, Luxembourg, and Germany.

After high-level contacts between the Elysée, the Chancellor's office in Bonn, and senior European Commission officials, Sir Leon sought to win over the waverers with a diluted proposal: one year of duties subject to a rolling review.

But in an extraordinary intervention, the free trade minded German economics ministry instructed the German representative to vote against. Austria and Luxembourg followed suit, and the duties plan died. "There was pandemonium in Paris," one Commission official said.

For the next five days, French officials and ministers sought to reopen the decision. Pressure rose after President Chirac secured Chancellor Kohl's support at a mini-summit in Paris.

But the free traders, led by Britain and the Netherlands, refused to budge. The compromise of a new inquiry emerged at the EU summit in Noordwijck last Friday.

Mr Chirac's intervention shows the disproportionate power of traditionally protectionist industries such as textiles in France. The pressure is acute because of high unemployment and concern about low-wage workers whose jobs are at risk in a more liberalised system.

The French government recently proposed a FFr3.2bn ($560m) plan to secure jobs in the sector by cutting social security payments. But Mr Karel Van Miert, EU competition commissioner, told Paris to come back with a plan which applied to other low-wage industrial sectors. The cotton weaving issue is small by comparison. The sector accounts for 5 per cent of the country's textiles industry output, but only 1.5 per cent, or 10,500, of its jobs.

While French weavers say they have been undercut by cotton dumpers, long-standing qnotas have prevented any growth in imports from these countries. Indeed, the sector has fared much better than the indnetry as a whole: its output, in volume terms, has remained fairly stable since 1990.

Anti-dumping investigations are governed by international law, agreed as part of the Uruguay round of trade talks and enforced by the World Trade Organisation. A new inquiry would have to prove injury and causality and damage to the Community interest.

Moreover, calls are growing to broaden the anti-dumping rules to take more account of the interests of large importing industries rather than small production interests. The British and Dutch are in the vanguard, supported by the Swedes and Finns, and even the Irish, who are reliant on foreign investment.

The broader lesson is that EU enlargement to Scandinavia tilted the balance of power in EU trade diplomacy against the French-led protectionists. This means even more French firapower directed against the Commission, though countries such as Finland and the Netherlands feel aggrieved when the Commission falls victim to big-country bullying.

Commission officials fear mistrust generated by the cotton case could serve as an excuse to block its proposal to extend powers to negotiate exclusively on behalf of the EU in intellectual property and services – one of the few demands Mr Jacques Santer, Commission president, has made in the EU's inter-governmental conference.

Lionel Barber and Jenny Luesby

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Investors are promised 'constructive' Labour approach to European Union

Minister gives assurance to Japan

By William Dawkins in Tokyo

Mrs Margaret Beckett, chief trade minister, yesterday promised Japanese investors that labour costs would not significantly rise under the Labour government, and that Britain was committed to a constructive approach to Europe.

"There will be no blanket repeal of the 1980s employment and trade union laws on ballots and strikes," she said. Mrs Beckett delivered a reassuring message at a series of meetings with senior officials and executives in Tokyo. Her three-day trip to Japan, which will end today, is her first overseas visit as a member of the Labour government, and a measure of the importance accorded by her department to Japanese trade relations and investment in the UK.

Japan is the third largest direct investor in Britain, with 5 per cent of the outstanding total. It placed 56 per cent of its total European Union investment with the UK in the past six months, official figures say.

The government's decision to sign the European Union social chapter meant that there would be "no huge add-on social costs," Mrs Beckett said.

She promised a "constructive and committed dialogue" with EU partners, a view which will be noted with relief by the many Japanese executives who were worried that the UK was distancing itself from the EU, with possible problems for their UK plants' exports to mainland Europe.

Mrs Beckett said that any decision on whether to take part in European monetary union would be "practical and sound, based on where national interest lay, rather than something decided on dogma".

Earlier this year, Mr Hiroshi Okuda, president of Toyota, Japan's largest car company, created a political storm in the UK by warning that he might reconsider future investment plans if Britain stayed out of EU monetary union.

On a visit to Toyota's Tokyo office yesterday, Mrs Beckett issued a "pressing invitation" to Mr Okuda to discuss his concerns with the Labour government.

Mr Shoichiro Toyoda, chairman of the powerful Keidanren economics federation and chairman of Toyota, showed understandable curiosity over the new government's policy on monetary union, she said. There was "great concern about the nature of the UK's relationship with the European Union," said Mrs Beckett. "It was not surprising, and in fact more than welcome."

Immediate rise in taxes 'not needed'

By Robert Chote, Economics Editor

Mr Gordon Brown, the chancellor of the exchequer, faces no immediate need to increase taxes in his forthcoming mini-Budget, according to an authoritative study by the Institute for Fiscal Studies and investment bank Goldman Sachs.

The plans which Mr Brown has inherited from the defeated Conservative government already embody a significant budgetary tightening in coming years, the report says.

This reflects above-inflation increases in petrol and tobacco duties, as well as the impact of "fiscal drag" as earnings increases push people into higher income tax bands.

"There is quite a lot of fiscal restraint in the pipeline", said Mr Gavyn Davies, chief international economist at Goldman Sachs and a hotly-tipped contender to become the next governor of the Bank of England, the UK central bank.

The report, entitled the Green Budget, argues that the tightening already in place will be enough to bring the public finances back into a sustainable position by the end of the present parliament, even if – as the study believes likely – there is some slippage in the government's spending plans.

"For tax increases to be needed now, we would have to argue that the government will choose to increase spending as a share of gross domestic product or that the economy is well beyond trend," it says.

Extrapolating Britain's long-term trend growth rate suggests that the economy is probably running 2 per cent below full capacity.

But business surveys find little evidence of spare capacity, which suggests that estimates of economic growth in recent quarters may be revised upwards.

On unchanged policies, the Green Budget expects the government to borrow £14.3bn ($23.2bn) in 1997-98, or 1.8 per cent of gross domestic product.

If the economy is running at full capacity, this would be small enough to stabilise the government's debt relative to the size of the economy.

But it would still be twice the level acceptable under the "golden rule", in which the government seeks to borrow only as much as it needs to finance investment.

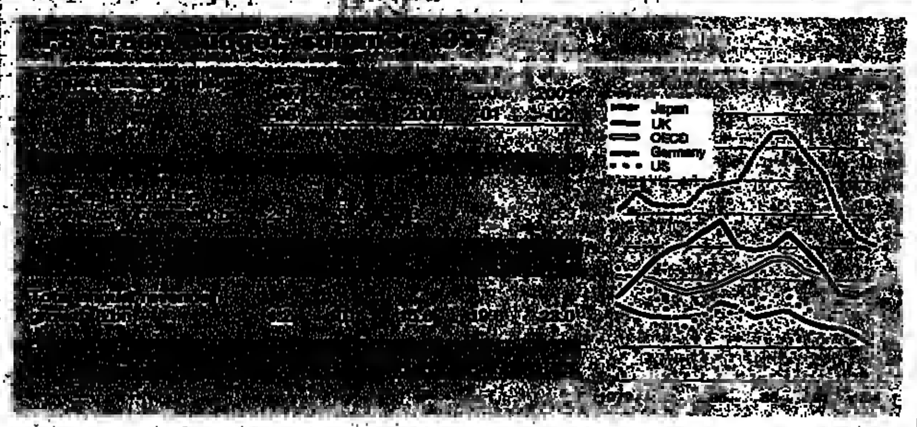
The Bank of England is meanwhile expected to raise interest rates gradually until there are clear signs that economic growth is slowing. But it is not expected to tighten rates aggressively until the pound weakens.

Goldman Sachs expects interest rates to reach 7.25 or 7.5 per cent over the next year, from today's 6.25 per cent.

"But these rises could take longer to come through if the pound remains strong, increasing the odds of a more pronounced cycle in economic activity over the next two to three years", the Green Budget said.

Mr Chris Wright, economist at Barclays Bank, predicted yesterday that base rates could climb as high as 8 per cent over the coming year.

He said that the chancellor had to take action to prevent a "volatile cycle" of growth and inflation.



Mr Gordon Brown, the chancellor of the exchequer, is to announce the date of his emergency Budget on Monday, Treasury officials said last night. They said Mr Brown would abide by the long tradition that chancellors announce the date of the Budget to parliament. Mr George Robertson, chief defence minister, will today announce the start of a formal defence review – promised in Labour's election manifesto.

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Accountancy firms to fight tax ruling

By Jim Kelly, Accountancy Correspondent

Two of the UK's "Big Six" accountancy firms yesterday made applications to challenge in court the Inland Revenue's controversial ruling that they would be taxed as companies, if they register offshore to limit legal risks.

Price Waterhouse and Ernst & Young were told earlier this year that, if they took up the option of registering in Jersey as limited liability partnerships (LLPs), they could face crippling tax bills. Jersey, the largest of the Channel Islands between England and France, makes its own financial laws.

"Leading counsel [advocates] have confirmed the view that the Revenue's decision is wrong in law," said Ernst & Young. "As discussions with the Revenue over the position have now concluded, we have made today's applications to obtain certainty as to the correct position."

The accountancy firms are trying to find ways of limiting their legal liabilities. They say current UK laws are unfair and expose them to frivolous and vexatious litigation, similar to that suffered by firms in the US.

Registration in Jersey as LLPs would protect the individual assets of partners from court actions for negligence brought against fellow partners. It would not protect the assets of the partnership or those of any negligent partners.

When the Revenue signalled it would treat a Jersey LLP as a company for tax purposes, several of the Big Six indicated they would fight the decision. "We are not giving up," said one firm's senior partner.

At the moment partners in the UK pay income tax. If firms which registered in Jersey were taxed as UK companies it is estimated that the total tax bills could rise by between 6 per cent and 10 per cent. There would also be a one-off tax bill associated with the change from partnership to company taxation.

It is understood that the "Big Six" have been in close discussions with the Revenue on the issue and praise its co-operation, although they have been unable to reverse its opinion. A judicial review could reverse the decision if it is judged as incorrect or wrong in law.

Price Waterhouse has been closely involved in the development of the new law in Jersey and is convinced that the resulting partnership is not a company. "We think the Revenue is wrong. This is a very important issue and we think it should be clarified," the firm said.

While the two firms have insisted they will seriously consider Jersey registration if the conditions are right, the application for a court hearing serves to keep up the pressure on the government to introduce UK LLPs, taxable as partnerships.

Unions hail new era for worker protection

By Robert Taylor, Employment Editor

The government's signing of the EU social chapter later this month will lead to a big programme of regulation to protect workers and unions, the Trades Union Congress says in a report today.

The report is part of today's "day of action" organised by trade unions across Europe. British unions are pressing the government hard for adoption of the European social market model, with its "commitment to a strong welfare state, workers' rights and decent public services".

The government has maintained that signing the social chapter should not lead to the widespread introduction of employment legislation that could impede labour market competitiveness. Mr Tony Blair, the prime minister, told heads of government last week that he wanted them to champion flexible labour markets.

But the TUC report argues that the "European labour market is much more flexible than is sometimes painted". It also accepts that the European Commission is "focusing on achieving a new balance between flexibility for companies and for individual workers and security for workers".

The report goes on: "The TUC interprets this approach as meaning flexibility is intended to bring advantages to all concerned and that it does not mean making workers vulnerable to new forms of exploitation.

"Ending the UK opt-out from the social chapter is the first step towards the recognition by all EU member states that social policy is a core policy in the same way as is the internal market to which it is inextricably linked. There should be no 'flexibility' or 'pick and choose' so far as basic rights at work are concerned."

The "coming agenda", says the TUC, will turn the EU into a social union. The new regulations will cover legislation to restrict working hours and protect workers employed outside their home countries. Once the social chapter is signed, the UK will have to pass laws to create European works councils in all UK-based companies employing more than 1,500 people.

The TUC says other measures under social chapter procedures will follow. These will include laws to place the burden of proof on employers in equal pay cases and the granting to part-time employees the same rights as full-timers.

Insurer sends suppliers a 'systems bomb' ultimatum

By Alan Cane in London

Legal & General Assurance Society is giving suppliers 21 days to accept a new clause in its standard purchase order which guarantees that goods of all kinds will be free from problems caused by the "millennium bomb".

It is among the first financial services companies to take action legally to protect itself against the consequences of a failure by a supplier to ensure its systems can cope with the change of date at the end of the century.

The "bomb", which is thought to affect more than 90 per cent of computer systems including personal computers, is a consequence of software programming methods which store the year as two digits – 97 rather than 1997, for example.

Software using the two-digit convention will not be able to distinguish between dates in this century and the next. In the case of Legal & General, this could have serious consequences for the dating of policies.

Ms Elly Stephenson, L&G's Year 2000 project manager, says in a letter to suppliers: "We are naturally taking steps to try and ensure that all items we purchase will continue functioning normally following the date change."

The new clause in the society's purchase terms and conditions reads: "The seller warrants that any items supplied to the buyer under this purchase order shall include design, functionality and performance so that the buyer shall not experience any abnormality in the performance or results returned from the items prior to, during or after the millennium change."

L&G said yesterday the letter was the first phase in a compliance programme which would cost "tens of millions of pounds". The next stage would be to check its own systems for compliance, including air conditioning, security and fire protection systems. The final stage would be to ensure that supply chains for items such as stationery and security passes could be maintained.

L&G's action reflects a growing awareness among those working on the 2000 problem that most companies are now linked electronically and that the failure of one company because of the "bomb" would affect all others in the supply chain.

$147bn makes Prudential 'the largest investor'

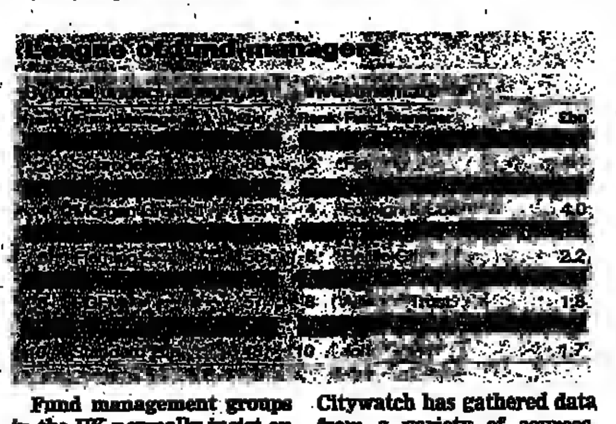
By William Lewis, Investment Correspondent

Prudential Corporation is the largest institutional investor based in the UK, according to an analysis about to be published by Citywatch, the independent fund management data provider.

However the Prudential, with £91bn ($147.4bn) under management, is only marginally ahead of Schroder and Mercury Asset Management. In UK equities, MAM is the largest investor with a total of £41bn under management including 4.2 per cent of the FTSE 100. The Prudential ranks second with £32bn and 3.2 per cent of the FTSE 100 and Schroder third with £29bn invested in UK equities and 2.8 per cent of the FTSE 100.

Citywatch has analysed the assets managed by all the leading institutional investors active in the UK market. Its report covers 209 institutional investors with a total of £1,800bn of assets of which £764bn is in UK equities.

For Barclays Global Investors, the fund management arm of Barclays Bank, Citywatch has excluded the assets managed by Wells Fargo Nikko, the US asset management business it bought in 1995.



Fund management groups in the UK normally insist on keeping secret the details of clients and the size of funds under management in different categories. However, Citywatch has gathered data from a variety of sources, and it claims to be one of the most comprehensive data sources available on institutional investors in the UK. Its analysis also discloses that MAM is the UK's largest manager of segregated pension funds, with a total of £50bn under management.

Segregated pension funds are managed as distinct entities by fund managers, while pooled funds are used by fund managers to bring together and invest the assets of a number of pensions collectively.

PDFM, the fund management subsidiary of UBS, the Swiss bank, is the UK's second largest manager of segregated pension funds with £48bn under management, and Schroder ranks third with £45bn under management. Nearly half of the Prudential's funds under management are insurance funds and it fails to make the top ten of managers of segregated pension funds.

Scottish Widows is the largest pooled pension funds manager with £13.6bn under management, and Legal & General is the second largest with £11.2bn under management.

The report also gives details of fund management groups' clients. For example, Citywatch states that one of MAM's largest mandates comes from British Telecommunications for which it manages £1.6bn in UK equities.

UK NEWS DIGEST

Rights plea for Hong Kong

Mr Martin Lee, leader of the Hong Kong Democratic party, called on the British government yesterday to ensure that China did not violate human rights after taking over the colony next month. Mr Lee, who is due to meet Mr Tony Blair, the prime minister, in London today said he would protest about what he said were violations of the 1984 treaty under which Britain agreed to hand over Hong Kong.

Mr Lee accused the defeated Conservative government of ignoring China's actions. "I hope the new Labour government will do something," said Mr Lee. "When there is a will, there are many options. When there is no will, there are many excuses. I hope Labour don't simply blame the Conservative government," he told a news conference in London. Pro-democracy activists oppose China's plans to replace the colony's elected legislature with one crafted by Beijing. "These things are already happening but I don't see the British government doing anything about it," Mr Lee said.

"The problem we are facing has very much been brought about by the neglect of the British government over many years."

■ NORTHERN IRELAND

Appeal to Protestant marchers

Ms Marjorie "Mo" Mowlam, chief minister for Northern Ireland in the British government, is to meet top officers of the Orange Order today in an effort to head off the violence that beset last year's marching season. The order is one of the biggest organisations in Northern Ireland for Protestant opponents of a united Ireland. The marching season comes to a head on July 12, when Orangemen in traditional sash and bowler hat (pictured) celebrate the victory of the Protestant Prince William of Orange over the Roman Catholic King James II at the Battle of the Boyne in 1690. Ms Mowlam, who briefed US officials last week on the state of the peace process ahead of President Clinton's London visit this week, is to meet Mr Robert Saulters, grand master of the Orange Order, as well as officials of the Apprentice Boys, another Protestant group.

The government is concerned that the region could see a repeat of last year's unrest when police bowed to a Protestant mob and forced an Orange parade through a Catholic housing estate at Drumcree, triggering two days of nationalist riots. *John Murray Brown, Dublin*

■ SCOTLAND

Parliament 'will boost city'

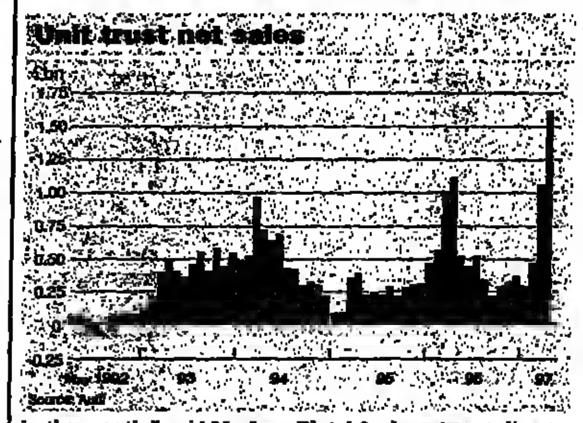
The setting up of a Scottish parliament in Edinburgh should lead to 5,000 to 10,000 more office jobs in the city, generating a need for about 900,000sq m of office space, Ryden International, the Edinburgh-based property consultancy, said yesterday. It expects that the parliament, which may be in operation by 2000, to attract public relations advisers, media organisations and "a whole raft of hangers-on", said Mr Mark Robertson, the company's head of research.

Edinburgh has about 1.6m sq m of office space and the supply has been boosted over the past six months by the completion of new buildings. The boost to office employment is expected to add to the 84,000 people already working in the centre of Edinburgh. The referendum on whether people in Scotland want their own parliament and whether it should have tax-raising powers is likely to be held in September. *James Buxton, Edinburgh*

■ MUTUAL FUNDS

Investors race to new sales record

Sales of unit trust (mutual funds) personal equity plans reached records in April as investors raced to beat the end of the tax year and the election of a new government, figures from the Association of Unit Trust and Investment Funds showed yesterday. The late buying surge confounded reports of a lacklustre start to the Pep "season" in February and early March. "In February we were down in the mouth," said Ms Jane Blatchford, assistant director of Schroders, the UK's biggest unit trust manager. But "since the last 10 days of March applications have flooded in". Fund managers sold £797m ($1,291m) of Peps to private investors between April 1 and April 5 – when the tax year ends. Sales then averaged £160m a day, much greater than any previously recorded. *Krishna Guha, London*



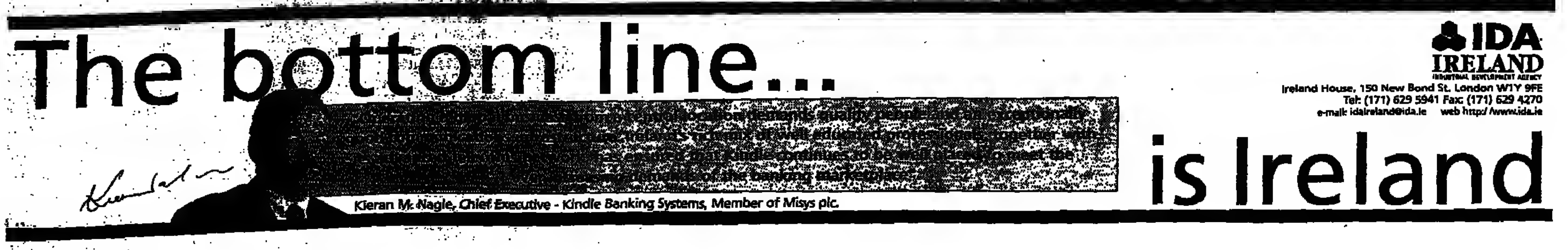
■ URBAN TRANSPORT

Italian group set for tram deal

A consortium consisting of Ansaldo of Italy; Serco, a traffic management group; and Laing Civil Engineering is expected to be confirmed within the next few days as the winning bidder to take over the tram system in the northern England city of Manchester and to build a £100m ($162m) extension.

The three companies, which form the Altram Consortium, have been chosen to take over a 17-year concession to build and operate the 7km extension to Salford Quays and Eccles. They will also take over the operation of the existing 30km network, which links the two city-centre railway stations with Bury and Altrincham. The MGA consortium which currently runs the trams, consisting of John Mowlem Construction, GEC Alsthom Transportation and Amec Civil Engineering, will be paid compensation for loss of revenues from its remaining 11 years.

Charles Batchelor, London; Robert Graham, Rome



Utilities get a wider picture

Geographic information systems have evolved in the utilities sector from being simple engineering tools to strategic business applications that can improve customer service, increase efficiency and reduce costs.

GIS was adopted by utilities in the 1980s to replace millions of ageing, often inaccurate, plans of their pipe or cable networks with digital screen-based versions. Early GIS technology was limited to capturing on screen information that had existed on paper.

"With older products you get to throw the maps away, but the business benefits of doing this are quite limited," says Andy Stafford, chief executive officer of Smallworld, the UK company which specialises in GIS for utilities.

Modern systems claim to do much more by allowing utilities to build intelligent screen-based network models that can be linked to customer databases, operational support systems or business planning tools. The aim is to give operators a real-time picture of how their network is performing and identify problems that could cause customers to change supplier.

GIS can also be used to explore new opportunities, such as laying a telecommunications network alongside a utility's power cables.

A typical user is the privatised UK water company Bristol Water, which wants to focus investment on the parts of its network that need it most. To do this it needs a computer model of the whole network that includes many types of information, from the age and diameter of each pipe or valve, to present and future water demand at each network node.

Previously, this data had to be compiled by hand and a model for 20,000 properties could take six working months to build.

Bristol Water recently developed a GIS-based modelling application that automatically extracts most of the data needed for a model from its existing GIS, supplied by Smallworld and other sources, such as an Oracle data warehouse.

For example, to model customer demand, the application looks up the consumption records for Bristol Water's metered customers in its billing system. For unmetered customers, the system calculates typical demand. In the case of a business, its industrial classification is used to calculate likely consumption, while the socio-economic classification of each property is used for residential users.

In the past, the properties would have to be counted and demand calculations made manually. With the new system, demand allocation is more accurate, says Fanner, and a large model showing all the water mains can be generated in two to three hours.

Another area where GIS is proving its worth is in network maintenance. United Energy, a privatised electricity distributor in the Australian state of Victoria, has linked its GIS to an asset management system based on the R/3 business software, from the German company SAP.

By connecting these systems to a mobile data collection system – used for plotting the location of cables and poles in the field – United Energy hopes to get a more accurate picture of the assets it inherited from its state-owned predecessor, allowing it to optimise maintenance and improve customer service.

Geoff Nairn

Using the Net · **Andrew Baxter**

Contours of the future mapped out

Maps and textual data can be merged into one unified source of information

The human resources manager of a big city organisation wants to check all the district offices for job vacancies. So he or she calls up a map on the organisation's website and clicks on one of several hot-spots. Within seconds, a report appears on screen describing the jobs available.

This is just one example of a fast emerging and potentially important trend in the development of the internet for both business users and the public.

A technology which has been around for 25 years in various forms – GIS or geographic information systems – is being brought out of a backwater into the IT mainstream because of the internet's ability to distribute data easily across an organisation or beyond.

Clever software tools developed over the past few months are enabling information from different databases to be linked to the geographic data, effectively merging maps and textual data into one source of information. The result is intelligent maps on the Web – or maps which do something when you click on them and can then be used for decision-making.

Before the arrival of the internet and a gradual move towards open standards in GIS over recent years, geospatial information had tended to be hidden away in organisations' mapping departments, which concentrated on collecting and maintaining data rather than distributing it.

"The internet will open a floodgate of spatial data for general use," says Larry Ayers, executive vice-president at Intergraph, the US IT company which has been pioneering the development of intelligent, online mapping tools. "People will begin to see spatial data as just part of all the data available to them, and more and more of which is being turned into information."

Intergraph believes that for every 10 creators of mapping data, there could be 100 potential users and 1,000 viewers who could access the information via the internet. Last year it launched GeoMedia Web Map, claimed to be the first solution providing live access to intelligent maps over the Internet and company-wide intranets.

Freedom of information is one area where maps on the Web could make an impact. Ayers points out there is a mass of geospatial data that should be available to the public, but the problem has been deciding who carries the cost burden. "The internet has changed that," he says. "Now you can put the data on the Web at no cost."

But most observers believe the greatest opportunity for smart maps will be within intranet applications. "It will be people in government finding out about other departments, or people with a commercial interest such as property developers," says Fredrick Limp, director of the Centre for Advanced Spatial Technologies at the University of Arkansas.

The availability of maps on the internet will widen the applications of geospatial information, says Steve Reed, a senior marketing manager at Intergraph's software solutions business. Maps could come into play for everything from land permits, valuation and construction planning to highway maintenance, accident reports and utilities management.

Putting textual information into a geographic context – for example, a power utility's list of bad debtors – could make it easier to assimilate. Limp suggests that the wider use of mapping data could also increase the trend towards focused product marketing, enabling companies to inject a geospatial element into their database matching to help identify potential customers. In turn, the need for accurate up-to-date geospatial data will increase, Reed and Limp predict, as the internet brings in new users.

Typical applications are emerging among early users of GeoMedia Wab Map. in the US, the city of Huntsville, Alabama, is using it as an address locator service. Future plans include widening the scope for public users to include zoning regulations and general local information, while city planners, sanitation and public works departments would be able to access everything from a pictorial inventory of bridges to demographic and transport planning data.

In Florida, the St Lucie County Property Appraiser's Office is using the system internally to access data about property valuations and link the information to a map of the area. It is trying to determine whether to charge outside commercial organisations for the service, says Robert Moore, director of GIS.

One of the most ambitious applications has been in the UK, where Intergraph launched a service in April to make geospatial information from government agencies and private data providers available online. Aimed at planners and civil engineers, it started with borehola data from the British Geological Survey. Information about sites of special scientific interest from the government's wildlifa agancy, English Nature, is due to be added next week, and electronic payment will be possible next month.

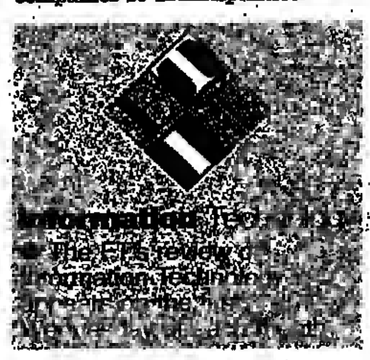
The core technology behind GeoMedia Web Map is Intergraph's ActiveCGM, which converts GIS data "on the fly" into Web-enabled intelligent maps. A second version expected around the end of the year will enable data such as an aerial photograph to be used as a backdrop and will work with a much wider range of databases.

Underpinning these developments is a "universal GIS client" called GeoMedia, launched this month by Intergraph and designed to give access to other geographic information systems without having to translate data, cutting the time taken to access and analyse spatial information.

Meanwhile, other companies are assessing the role the internet can play for distributing geographic information, smart or otherwise.

Colorado-based Earthwatch bas an internet-based service called Digital Globe Navigator which from this summer will allow users to order maps online from its own EarlyBird satellite, the first of a planned network of three.

Initially, interest from foreign military powers will be extremely high, says John Lee, international channel sales manager, as the information was praviously unavailable. "Then it will revert to traditional users of mapping and GIS data, from forestry and oil companies to municipalities."



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Private networks on the internet

As if the distinction between internet and intranet were not confusing enough already, here comes a new product which blends the two. HotOffice is a new service which allows a small business to establish a private corporate network over the public internet.

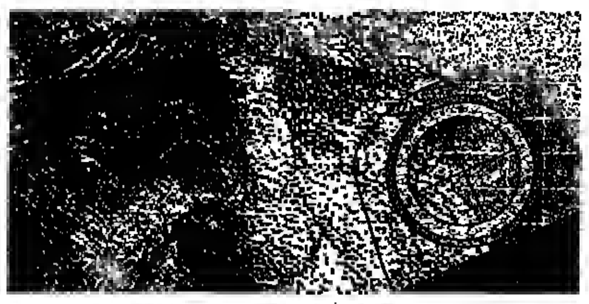
Employees with a personal computer and internet connection can use HotOffice to send and receive internal e-mail, hold virtual meetings, post messages in electronic forums, look up the internal directory, publish and retrieve documents, and arrange travel.

The data is held remotely on HotOffice's own server computers, freeing a company of the need to acquire equipment, download special software or hire technical support staff. The cost of the service, after a month's free trial, is $29.95 a month.

Another web-based office service is available from Farallon. Netopia Virtual Office allows users to post messages on a web page, notify visitors that they are back at their desk, and colleagues to share their screen.

HotOffice Technologies, US: tel 561 995 0005; web www.hotoffice.com

Watching brief



IBM's Java chip promotes NC

The network computer (NC) – which eliminates much of the complexity and cost of traditional personal computers – has taken a step further from concept to commercial reality.

International Business Machines' microelectronics division has confirmed that it is developing a chip which can be used to power network computers.

The chip, samples of which will be available by the first quarter of 1998, is being designed to work quickly with programs written in the Java computer language. Java applications can reside on a central server computer and be downloaded over a network to an NC as and when they are needed.

Sun Microsystems, the main backer of the Java language, has also announced plans to develop Jave chips, and other manufacturers are expected to enter the market.

However, the move by IBM, still the world's biggest computer company by revenue, gives credibility to the concept of the network computer.

IBM, US: web www.chips.ibm.com

Big boost from tiny hard disk

Computer hard disks are getting yet smaller and more powerful. IBM has announced a disk drive measuring 2.5in across which holds 5 gigabytes (billion bytes) of data, equivalent to about 1m printed pages.

The drive, which uses IBM's "magnetoresistive extended" head technology, is designed to give notebook computers the capacity to run storage-intensive multimedia programs, such as videoconferencing.

IBM, US: tel 1 800 772 2227; web www.almaden.ibm.com

End to online registration

The days of the online registration form may be numbered. A group of internet companies including Netscape Communications and VeriSign have launched a standard designed to govern the exchange of information between users and internet sites.

Many sites, even those which do not charge, require visitors to fill in their name and other personal details before allowing entry. But a substantial minority of web users refuse to fill out these online forms, either because the process is time-consuming or because of concerns about their privacy.

Open Profiling Standard, the new blueprint, should solve that by creating a personal profile on the user's computer, from which a website can draw down important details. The information contained in the personal profile would include name, address, postcode, e-mail address and phone numbers, as well as age, marital status and interests.

Under the proposed rules, to be submitted to the World Wide Web Consortium, which approves standards, a website would be able to question a visitor, but would only be able to access information which the user expressly permits.

VeriSign, US: tel 415 961 7500; fax 415 961 7300; web www.verisign.com

Pocket-sized power: IBM's 5 gigabyte laptop disk drive

Fingerprint test at the keyboard

Scientists at Bell Labs, the research arm of Lucent Technologies, have developed a tiny fingerprint reader that could be built into a computer keyboard. This would allow users to access their PCs and deny entry to others, while dispensing with passwords.

The reader, which is being commercialised by Veridicom of Menlo Park, San Francisco, is a breakthrough because it does not rely on cumbersome optical scanning to determine the outlines of a fingerprint. Instead, it uses thousands of sensors on a semiconductor chip, which use an electric charge to determine ridges and grooves.

Veridicom's reader is roughly the size of a postage stamp and will retail at about $300. Devices which use optical technology have to be much deeper, and cost about $500, according to Veridicom. Cheaper fingerprint readers could also be used in automated teller machines, to substitute for time cards, and to use a mobile phone.

Veridicom, US: tel 415 926 7769; web www.veridicom.com

Watching Brief is compiled by Nicholas Denton, e-mail nick.denton@FT.com; fax UK (0)171 873 3196.

دکتر من الخاطر

Luxembourg

Whatever the outcome of the Intergovernmental Conference next month, the wealthy mini-state at Europe's heart will be influential in shaping political and monetary policy when it takes over the rotating presidency of the EU, reports Neil Buckley

Strong believer in value of teamwork

For the second half of this year, tiny, 400,000-strong, Luxembourg will again exert an influence across the 370m-strong European Union out of all proportion to its size.

The wealthy mini-state at Europe's heart takes over the rotating presidency of the EU on July 1 – another chance for it to play the central role it has fulfilled for four decades, as one of the six founders of the original European Economic Community.

If, as hoped, EU leaders complete the Intergovernmental Conference on reforming the Union at next month's Amsterdam summit, Luxembourg will not have to take over running the negotiations. But it will face the tricky task of translating Amsterdam's political agreements into a legally-workable treaty in 11 languages – a mirror image of its 1991 role in shaping the Maastricht Treaty, when Luxembourg's presidency preceded that of the Netherlands.

In continuing to lay the foundations for European monetary union, it will be implementing a project of which a former Luxembourg prime minister, Mr Pierre Werner – who devised the first single currency plan in 1970 – is acknowledged as the intellectual father.

In both tasks, the Luxembourg presidency will have an even more direct line than usual to the European Commission president: another former Luxembourg prime minister, Mr Jacques Santer.

But in carrying out what may be the central task of its presidency, preparing for enlargement of the EU to the east and south, Luxembourg will ironically be sowing the seeds for future diminution of its own powers.

Enlargement from 15 to as many as 27 members will not only represent a revolutionary change for the EU, it will inevitably have a greater impact on Luxembourg's status and influence than the jump from six members to 15.

Even if it achieves its cherished wish of retaining a European commissioner, its voting weight in the Council of Ministers will be reduced, and its opportunity to hold the presidency and direct EU affairs less frequent.

Moreover, accession of eastern European states will shift the EU's political and geographical centre of gravity eastwards. That will pose a challenge for a state which has deftly exploited its location sandwiched between France and Germany, at the junction of Latin and Anglo-Saxon culture.

But the concept of flexibility, or the idea that certain groups of EU states may proceed more quickly than others along particular policy paths, may provide a way for Luxembourg to ensure it has a powerful voice.

In the main policy areas, it is committed to being in the EU's inner core, which may enable it to continue to play a disproportionate role.

On the biggest initiative of all, the single currency, it was the first EU state to meet the Maastricht qualifying criteria. No other country comes close to matching the ease with which it qualified.

In social policy, it is a staunch defender of the "European social model", which it identifies closely with its own national system – as Luxembourg's youthful Christian Socialist prime minister, Mr Jean-Claude Juncker, made clear in his annual "state of the nation" address this month. He passionately rejected calls in an OECD report for Luxembourg to cut benefits and increase labour market flexibility to tackle its low, but rising, unemployment.

"Precariousness of paid employment, the abolition of labour law, uncontrolled deregulation, frenetic flexibility – in short, the dismantling of the social state – is no solution to Europe's employment crisis," he warned.

Mr Jacques Poos, foreign minister, says Luxembourg will use its presidency to re-launch efforts to build an EU-wide social policy, after the UK's new Labour government lifted its veto on the social protocol of the Maastricht Treaty.

Luxembourg is committed, too, to closer co-operation in justice and home affairs, and with a quarter of its 213,000 workforce commuting in each day from surrounding countries, it epitomises the Europe of open borders.

The Schengen Treaty, under which the first group of European countries established passport-free travel between them – set to be incorporated into the new EU treaty – is named after the Luxembourg village bordering France and Germany where it was signed.

And Luxembourg, naturally, has enthusiastically embraced the single market. Already the banker for large numbers of clients from surrounding countries, it now has ambitions to be home to their pension funds.

Such moves may help it to offset the domestic downside of the introduction of the euro: the costs and revenue loss it will entail for the mainstay of the Luxembourg economy, the financial services sector.

The Luxembourg bankers' association has estimated transition costs to the euro alone at LFr8bn, or nearly 4 per cent of total annual bank revenues, while the loss of foreign exchange and other commission income will also hit revenues.

Perhaps more perniciously, arrival of a single currency could bring demands for further Europe-wide harmonisation of banking rules. That could include withholding tax and minimum reserve requirements, whose absence is one of Luxembourg's attractions, as well as bank secrecy rules – something the Grand Duchy holds sacred.

Pressure for reform of the latter may also increase as Belgium and Germany, in particular, have become more vocal in complaints that Luxembourg is being used as a tax haven.

The issue simmered over into a diplomatic row after the recent leak of a Belgian diplomatic report alleging Luxembourg was a centre for money-laundering by such figures as Saddam Hussein, Colonel Gaddafi, and Zaire's deposed President Mobutu.

Mr Juncker and Mr Poos – who formally complained to Belgium – rubbish such claims, and even suggest a deliberate plot to undermine Luxembourg's banks.

"These accusations could damage the Luxembourg financial sector – and I think they were launched in order to do damage," Mr Juncker told the FT in an interview this month.

Luxembourg's secrecy rules, he added, could not be used to screen illegal activities, which banks are legally obliged to report. The government has also issued draft legislation to extend the scope of existing money-laundering laws.

But possible pressures on a sector which accounts for 15 per cent of GDP and nearly one-third of corporate and income tax revenues, have focused minds on the need to avoid over-reliance on financial services.

Mr Juncker puts continuing the diversification of the Luxembourg economy, which began in the 1970s with the move away from steel, its historic source of wealth, at the top of his list of domestic priorities.

"Luxembourg must draw lessons from its own history," he told the FT. "We moved away from one form of economic monolithism, but we risk becoming the victim of another – banking. We must continue structural diversification."

The media sector has been identified as the "third wave" in Luxembourg's economic development, and Compagnie Luxembourgeoise de Télédiffusion has strengthened an already powerful position in European broadcasting through the merger of its TV interests with Germany's Ufa.

The success of 12-year-old Société Européenne des Satellites, operator of the Astra satellite system, has made it one of the biggest contributors to the Grand Duchy's public revenues.

The self-styled "Mediaport Europe" suffered a setback, however, when Europe Online, the multilingual Internet service provider, was declared bankrupt last summer after being dogged by squabbles among its shareholders.

Mr Juncker says all sectors must be encouraged and modernised. This month he announced an acceleration of corporate tax cuts to increase Luxembourg's competitiveness and attractiveness for investors, as well as measures to encourage subsidiaries of international companies to re-invest profits there.

But it is being part of a greater Europe, and particularly the coming single currency, that Mr Juncker sees as the best guarantee of maintaining Luxembourg's influence and prosperity.

"If you want to be an actor, you have to be part of the team, you have to play ball," he says.

After 40 years at the heart of Europe, Luxembourg understands better than most the value of teamwork.

Constitution

■ Form of state

■ Electoral system

■ National government

■ National legislature

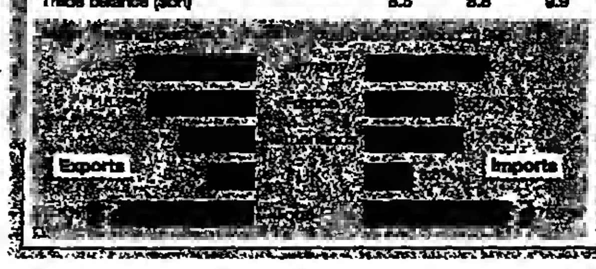
■ National elections

■ Head of state

■ Prime minister

Economic summary

	1996 Estimate	1997 Forecast	1998 Forecast
Real GDP growth (annual % change)	2.4	3.1	3.2
Inflation (annual % change in CPI)	1.4	1.9	2.0
Unemployment rate (% of workforce)	3.2	3.5	3.5
Government budget balance (% of GDP)	0.8	1.2	1.5
BELGIUM-LUXEMBOURG ECONOMIC UNION (BLEU)			
Trade balance ($bn)	8.5	8.8	9.9



■ Main towns and population (1991 census)
Luxembourg-Ville (capital) 75,833
Esch-sur-Alzette 24,018
Dudelange 14,674

■ Currency: Luxembourg Franc (LFr) – at parity with Belgian Franc
Exchange rate:
1996 average $1 = LFr30.95
May 28 1997 $1 = LFr34.96

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BANKING • by Simon Gray

Shrugging off café chatter

Scandal claims seen as attempt to make Duchy harmonise tax on savings

Luxembourg's bankers are resigned to the occasional brickbat from the media and politicians in neighbouring countries concerning alleged money-laundering, tax evasion or other wrongdoing in the Grand Duchy's financial sector.

The leaking to the press this month of a report by a Belgian diplomat, accusing the country's banks of a variety of sins including laundering the ill-gotten gains of dictators such as Saddam Hussein, Jean-Bedel Bokassa, Muammar Gaddafi and, topically, deposed President Mobutu of Zaire, was the latest in a long line of such incidents.

Hugo van Dijck, the former second-ranking diplomat at the Belgian embassy in Luxembourg, in particular accused one small bank recently acquired by Kredietbank Luxembourg (KBL) from the Paribas group, of being a conduit for money-laundering.

The publication of the report came just a couple of weeks after KBL chief executive Mr Damien Wigny had complained publicly about the "general hypocrisy toward the financial centre of Luxembourg". Last summer the bank was the target of press reports alleging that a disgruntled former KBL employee had presented the Belgian authorities with a list of customers who were not paying tax on their investments in the Grand Duchy.

The latest accusations brought a swift response in Luxembourg. A statement from the foreign and justice ministries described the Van Dijck report as "recycled café gossip" part of a "systematic campaign of denigration" and also protested to the Belgian authorities.

KBL vigorously denied the report, while the bank's former chief executive Mr Constant Franssens practically accused Mr Van Dijck of lying about an alleged conversation between them.

A growing body of opinion in Luxembourg believes that such attacks, and others conducted by the German tax authorities and media, are an attempt to exert pressure on Luxembourg to water down its banking secrecy provisions and/or accept EU harmonisation of taxation of savings – or at least to scare off investors from those countries who keep their assets shielded from the taxman in the Grand Duchy's banks.

Prime Minister Jean-Claude Juncker protested in his recent state of the nation speech to Parliament that the country needed no lessons on combating money laundering or co-operation with judicial authorities in other countries from anyone, adding, "Those who think these pressures might influence our policy in negotiations on fiscal harmonisation are mistaken."

However, Mr Juncker also warned the financial sector that its future should not depend on tax advantages. That is something Luxembourg bankers are bearing in mind as they prepare for the challenges of the European single currency and simultaneously grapple with one of the sector's biggest weaknesses, its costs.

On the face of it, Luxembourg's banking sector continues to enjoy satisfactory progress. Last year the 221 banks (one more than at the end of 1995) had a combined balance sheet totalling LFr19,300bn and achieved an aggregate profit before provisions of some LFr110bn, up from LFr104bn the previous year, according to provisional figures from the sector's regulator, the Luxembourg Monetary Institute.

Mr Paul Meyers, chairman of the Luxembourg Bankers Association (ABBL), says the sector benefits from its diversified nature and wide range of activities which enable it to offset cyclical disparities between the different segments of the financial market. At LFr207bn, the industry's gross earnings last year considerably exceeded those in the previous record year of 1993.

But Mr Meyers says, "Staff costs rose by 30 per cent over the three-year period to LFr48bn and swelled operating expenditure to such an extent that net profit before provisions was only 53 per cent of gross earnings," – which is poor by international standards, and well below the 1993 ratio of 62 per cent. "It is clear that the profitability of the banking sector is declining," he adds.

The ABBL chairman notes that around two-thirds of bank earnings come from interest rate margins, which were affected by the low level of global interest rates and showed little improvement last year. Income from the securities market grew strongly, but sales of securities constitute less than 10 per cent of total bank earnings.

Pressure on costs will increase as the launch of the single European currency, the euro, approaches. The Luxembourg bankers' association has estimated total transition costs for the sector to the euro at LFr8bn, equivalent to almost 4 per cent of last year's total bank revenues.

The government recently announced plans to allow companies to offset part of their transition costs to the euro against tax – one of the first EU countries to do so – which should ease some of the pain. But banks will also be hit by loss of revenues such as commission on foreign exchange dealing between currencies which will be absorbed into the euro, and on Luxembourg Franc-denominated Eurobonds.

Mr Lucien Thiel, general manager of the ABBL, says it is important not to overestimate the impact of the single currency on Luxembourg, which has the opportunity to become one of the leading financial centres within the new euro zone.

But the banks are busily looking for new sources of income which could fill the gap created by any euro-related revenue losses.

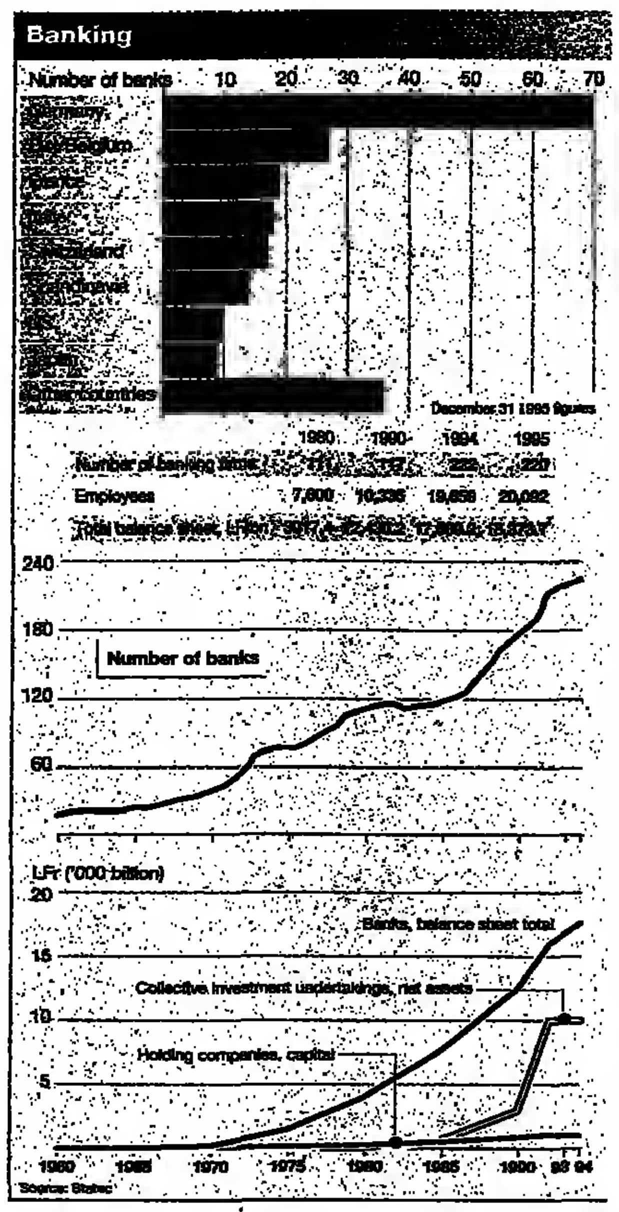
First on the agenda is the creation of German-style *hypothekenbanken*, or mortgage banks specialising in property financing for businesses and individuals. Such banks would be permitted to issue property-related or mortgage bonds, a high-end product which universal banks are not permitted to offer.

A bill allowing the creation of mortgage banks is before parliament, and should be adopted within the next few weeks, possibly allowing the first such banks to appear later in the year.

An even bigger opportunity may be offered by cross-border pension funds, an idea the bankers' association is developing in co-operation with its sister body Alfi, the investment funds association (see fund management, page 4).

Other ideas for potentially profitable niches are in the pipeline.

But the financial sector knows that its attractions, such as lack of withholding tax, and secrecy rules, will continue to come under scrutiny. It has weathered the latest storm over the Belgian diplomatic report, but it knows there will almost certainly be more attacks to come.



ECONOMY • by Neil Buckley

A mar on the miracle

OECD ideas for dealing with the jobs problem have provoked a piqued response

Luxembourg is not used to criticism of its economic policies. Its growth is forecast to be close to 4 per cent again this year, and GDP per head is the highest in the European Union. So a recent OECD report calling for important changes to its social security and labour laws sent murmurs of indignation echoing through the narrow streets of Luxembourg's government district.

No one questions Luxembourg's claim to have achieved an economic miracle since the 1970s. It had a monolithic economy in which industry accounted for 40 per cent of GDP with the steel industry alone accounting for 20 per cent. But the oil price shock of 1973-74 and worldwide slump in steel demand threatened to bring the Grand Duchy to its knees.

The fightback began with a rapid 15 per cent reduction in steel capacity and a 37 per cent cut in the workforce, a plan agreed between employers, unions and the government. These steps were coupled with a carefully managed programme to diversify the economy into areas such as financial services and the media.

The result: transformation of the Grand Duchy's economy and some of the fastest growth rates in Europe. Today, industry accounts for less than 20 per cent of GDP and steel for less than 5 per cent. Services, meanwhile, have doubled their share to more than 60 per cent.

Annual growth between 1970 and 1994 averaged 3.9 per cent. The Luxembourg economy avoided the Europe-wide recession of the early 1990s, and growth over the past decade has averaged 1.5 percentage points higher than for the EU as a whole. Inflation remains low at 1.3 per cent in the first four months of this year.

To cap it all, unlike its neighbours Luxembourg will sail into European monetary union with a projected budget surplus this year, and debt scarcely one-twelfth the level permitted by the Maastricht treaty.

So what is the problem?

Unemployment, say the OECD and some of Luxembourg's own economists. While it is still enviably low at 3.7 per cent, it is at its highest since the war, and rising. Moreover, even though job creation, at about 2.5 per cent of total employment, or roughly 5,000 jobs a year, outstrips that of most EU states, many new jobs are taken by skilled workers from neighbouring countries and further afield.

Two-thirds of Luxembourgers losing their jobs find a new one within six months – but one-third do not. They risk becoming part of a developing hard core of long-term unemployed.

A quarter of all Luxembourg jobs are held by foreigners, and with double-digit percentage unemployment in surrounding regions, and about 100,000 jobless within a 70km radius, many jobs are likely to continue going to what Luxembourgers call "borderers".

To promote further job creation, the OECD called for several measures to increase labour market flexibility:

- abolish wage indexation to make wages more responsive, especially at the lower end of the scale;
- reduce "generous" unemployment benefits which may reduce work effort and incentives to look for work, and use savings for employment promotion;
- relax the system of collective wage agreements to allow outsiders to "price themselves back into the market";
- restrict access to special benefits, such as disability and early retirement payments, to reduce fraudulent claims and the use of early retirement schemes.

Perhaps because the recommendations touched two sacred cows – wages indexed to inflation, and one of the most benevolent welfare systems in the EU – the government reacted with pique.

Jean-Claude Juncker, prime minister, said in his state of the nation address this month: "We are not in England, we are not in the US, nor in Asia – we are in Luxembourg. We have our own social model which suits us well. We have our own customs and we do not expect others to adopt them."

He added that "frenetic flexibility" was not the solution to the employment problems of Luxembourg or Europe.

Instead, Mr Juncker concentrated on increasing the competitiveness of Luxembourg industry as the means to create jobs, by accelerating tax cuts. A phased cut in profits taxes from 33 per cent to 30 per cent by 1999, which was announced last year, is being brought forward a year. Together with abolition of local capital taxes last year, the effective corporate tax rate will have fallen from 40.29 per cent in 1995 to 37.45 per cent in 1998.

To encourage investment in Luxembourg, the government will also allow subsidiaries of foreign-owned businesses that reinvest profits in the Grand Duchy, rather than send them abroad to offset the net asset tax against their total tax bill.

In a measure which should help to subdue wage demands, Mr Juncker also announced cuts in income tax by raising personal allowances and lowering the top rate from 50 per cent to 46 per cent.

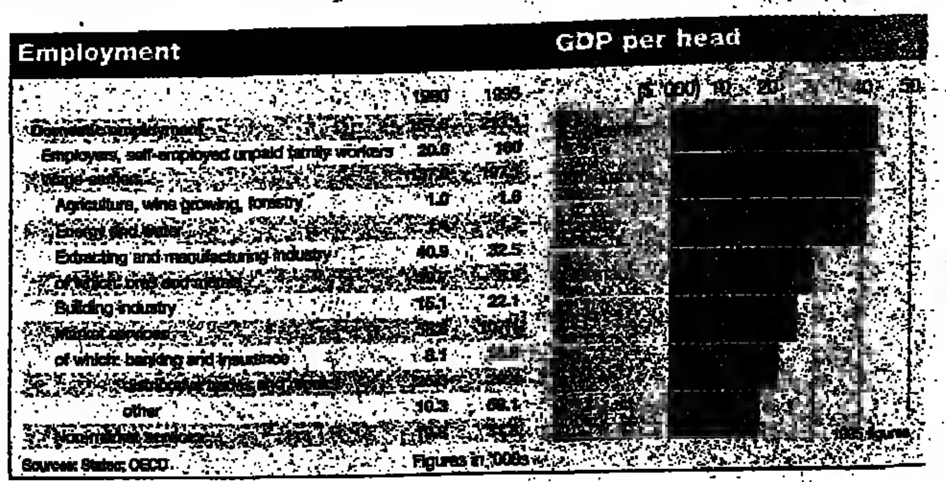
But, says Mr Paul Hippert, managing director of the Luxembourg Chamber of Commerce, many employers support the OECD's call for a cut in benefits to provide greater impetus for unemployed Luxembourgers to search for jobs. Some officials also suggest social security reform will be on the agenda once the government has tackled the delicate matter of public sector pension reform, if only to reduce the burden on the public purse.

For now, pensions are dominating the agenda. Luxembourg's 16,000 government employees receive a generous state pension of five-sixths of final salary – unsustainable as birth rates fall and life expectancy increases.

Mr Juncker has been unable to reach a hoped-for agreement on reform with the CGFP civil service union, but says he will press ahead with introducing legislation before the summer.

"Our public finances are menaced by pension costs. If we don't do anything between now and 2015 we will have to reduce pensions then, and beneficiaries will rebel.

"I prefer to tackle problems while they remain small, rather than to wait until they become a crisis."



PROFILE Arbed

Reinforced for recovery

An increase in investment and a stronger market have brightened prospects

Arbed, Luxembourg's only home-grown multinational, may have slipped into the red last year, but the world's seventh-ranking steelmaker (with output of 11.7m tonnes last year) is confident that it is still on track for long-term success in an increasingly competitive business.

The group has invested heavily over the past few years in modernisation and the acquisition of capacity, and now has big steelworks in the Grand Duchy, Belgium, Germany and Brazil, other production facilities in Japan, South Korea and the US, and outlets in more than 60 countries worldwide.

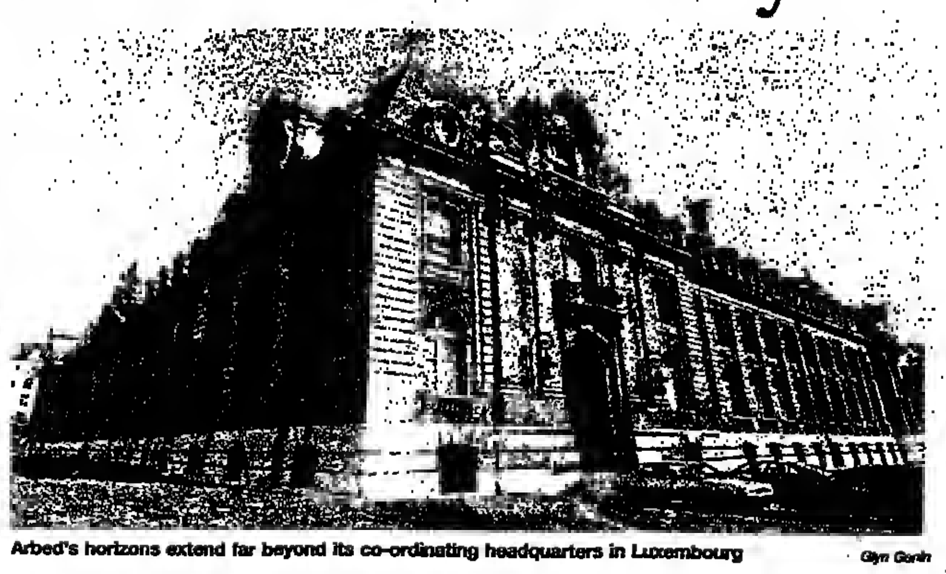
With the European steel market expected to perk up this year after being in the doldrums Joseph Kinsch, chairman and chief executive, expects the group to enjoy better results in 1997 although he won't actually use the word profit.

The downturn is attributed to a variety of factors, including an indifferent general economic climate, cutbacks in civil engineering projects as EU members slashed public spending to meet the Maastricht criteria, and drawing down of stocks by stockholders and end-users.

The result was empty order books and tumbling prices. However, Mr Kinsch believes that is now in the past. "We are confident about the upturn in prices as well as orders," he says.

"Prices fell very low in 1995 and last year in our home markets, with European steel becoming the cheapest in the global market. But now expectations are good with relatively improved prices throughout the European Union."

Mr Kinsch believes Arbed is benefiting from a wholesale industrial and organisational restructuring launched in the early 1990s, starting with the transformation of the group's Luxembourg-based parent, Arbed, into a holding company with a co-ordinating role and the grant of autonomy to the group's operational sectors.


Arbed's horizons extend far beyond its co-ordinating headquarters in Luxembourg

Subsequently the group has invested heavily in production facilities, including the conversion of the entire long products sector to electric steelmaking technology and greater focus on higher added-value products, such as coated steel sheet, for which margins generally are higher and demand is steadily increasing.

However, these initiatives were insufficient to offset the depressed state of the market last year, says Mr Kinsch. Consolidated sales totalled LFr232.2bn, a decline of 9.7 per cent, although it would have been 4.6 per cent but for the sale of a majority stake in ARUS, Arbed's stockholding joint venture with France's Usinor Sacilor, to the Klöckner group.

This performance is not a bad one, Mr Kinsch says, given the downward pressure last year on prices, which fell by an average of 13 per cent for beams, seven and 14 per cent respectively for cold-rolled and hot-rolled coils, and 21 per cent for flat stainless steel. But overall the group posted a consolidated loss for the financial year of LFr28m, compared with a profit of LFr6.6bn in 1995.

The loss attributable to Arbed itself, at LFr1.2bn, is actually higher than the consolidated figure, because the only business area actually in the red was the long products sector, a 100 per cent subsidiary of the parent company (other parts of the group are not wholly owned).

The reduced weight within the group of the long products sector (beams, sections, sheet piles, rails and reinforcing bars), produced at three plants in the Grand Duchy as well as Unterwellenborn in eastern Germany, is indicative of Arbed's change in character from a primarily Luxembourg-oriented company with some interests abroad to a truly international group.

In the early 1970s, before the oil price hikes brought Europe's steel industry to its knees, Arbed employed a workforce of around 27,000 in Luxembourg. It has reduced this to some 7,000 (without compulsory

Continued on Page 4

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EU PRESIDENCY • by Lionel Barber

Old hands lead the way to pastures new

A steady nerve is needed to steer next phase of enlargement and monetary union

Luxembourg takes over the rotating presidency of the European Union on July 1, with a mixture of pride and trepidation.

The chief task will be to steer the opening phase of enlargement of the EU to the new democracies of central and eastern Europe, a turning point in the history of the Union.

Yet with a little over four weeks remaining, Luxembourg can only keep its fingers crossed that EU leaders will meet their self-appointed deadline of mid-June for wrapping up the Intergovernmental Conference (IGC), itself the pre-condition for launching enlargement.

Fortunately, the Luxembourg government can call on an experienced team. Many cut their teeth on the 1992 Maastricht treaty negotiations and, less happily, the crisis in former Yugoslavia which later escalated into civil war.

Mr Jean-Claude Juncker, prime minister, helped to draft the Maastricht conditions and timetable for economic and monetary union in the summer of 1991. He forecasts a "high voltage presidency".

Mr Jacques Poos, the veteran foreign minister, will be celebrating his third EU presidency. He took office before when the Union was a mere 10 members. Mr Jean-Jacques Kasel, ambassador in Brussels, is one of the most experienced members of the permanent representatives known as Coreper which serves as the clearing house for EU business.

Every successive enlargement of the EU – from the first expansion to Britain, Denmark and Ireland in 1972, the southern sweep encompassing Greece, Portugal and Spain in the 1980s, and the most recent admission of Austria, Finland, and Sweden in 1995 – has left an indelible mark. But eastern enlargement poses a challenge on a different scale.

The combined gross national product of the Czech republic, Hungary, Poland, Slovenia, the Baltic states, Bulgaria, Romania, and Slovakia is less than that of the Netherlands. The EU's eastern border will shift to the frontiers of the former Soviet Union. The minority question, whether Magyars in Slovakia and Romania or Russians in Estonia, looms large.

Moreover, the accession of Cyprus, the sole candidate from the south, remains potentially explosive because of the island's divided status and the continuing rivalry between Greece and Turkey. Indeed, diplomatic efforts to resolve the 23-year-old Cyprus issue are likely to peak during the Luxembourg presidency.

Mr Juncker says a timely conclusion of the IGC is crucial. He is resigned to a modest outcome, but he worries that too modest a result could tempt some countries to drag their feet when it comes to negotiations over the terms of accession.

If there is a slight delay, what matters most is that enough progress is made to ensure that his diplomats and the experts in the Council secretariat in Brussels can wrap up the final Maastricht 2 text in July. A delay beyond the summer holidays would throw a spanner in the works.

This is because the European Commission plans to unveil in mid-July its opinions on which candidate countries are ready to open accession negotiations. These opinions will be accompanied by proposals to reform the common agricultural policy, regional aid, and the new EU budget 2000-2006 which is the essential policy underpinning for enlargement.

The next task for the Luxembourg chairmanship is to strike a balance between those countries which are strong supporters of enlargement on geo-political grounds (such as Britain and Germany) and those which are more reluctant (Italy, Spain and Greece) because it could threaten their financial position. The issue is complicated by "clientism".

It is widely assumed that the Czech republic, Hungary and Poland will be on the short-list, partly because of German interest in securing its eastern border. But Estonia, Slovenia, and maybe even Romania are also pressing hard for early entry, with support from Sweden and Finland, Italy, and France respectively.

The most likely outcome is some form of "differentiation", tempered by moves to include everyone in the process at the start, possibly via a standing European conference of the present 15 and the applicant countries.

Mr Juncker says that Luxembourg has one great advantage over other countries: its motives regarding enlargement are above suspicion. It can act as a neutral arbiter not as a hegemonic power. Thus, the plan is to hold a preliminary summit in mid-October to discuss the short-list of potential members and the timetable for accession, before reaching final agreement in December.

Throughout this intensive period of negotiation, Mr Juncker's watchword is to avoid any "spillage" into preparations for the launch of the single currency on January 1, 1999. The incoming British presidency will chair the summit which chooses the future euro members in May 1998, but in practice the Luxembourgers believe the list of qualifying countries will be clear by late autumn.

If there is any market turbulence, Mr Juncker says it may be necessary to take action. One option is for EU leaders to "pre-announce" bilateral conversion rates between the euro members to give a clear signal to the financial markets that central banks and governments will not allow the Emu project to be derailed at the last minute.

Mr Juncker declines to offer detail on the grounds that he does not want to tip his hand to the markets. Mr Poos is also cagey, but he notes that there is nothing in the Maastricht treaty which forbids action if the Council were to state that the conditions for monetary union were met.

One more sign of how Emu is driving the process of political integration in the EU is the Luxembourg presidency's decision to put on the table a package aimed at curbing unfair tax competition in the EU and achieving a level of fiscal "approximation".

The package would include the vexed issue of withholding tax as well as social security charges. It would attempt to build on the work of the Monti group of experts set up under the chairmanship of Mr Mario Monti, the EU commissioner for the single market, thus laying down the intellectual framework for a deal in the post-Emu world.

For the moment, however, Luxembourg's eyes are on the next six months. Success will require steady nerves.

Jean-Claude Juncker: "I have not left my political puberty, I want everything to be done quickly"

Jacques Poos, the veteran foreign minister, will for the third time play e key role during Luxembourg's presidency of the EU

INTERVIEW • Jean-Claude Juncker, PM

'Junior' grows in stature

The premier is keen to forge new EU links and to stick to a hectic political calendar

Mr Jean-Claude Juncker sweeps into the room with the air of a man in a hurry. A quick handshake, a polite request for coffee, and the inevitable fumbling for the first cigarette.

The prime minister of Luxembourg is looking a little less youthful these days. His jet black hair is flecked with silver, his face creased with the onset of middle age and more than 20 years of public life, mostly around the Brussels negotiating table.

Mr Juncker still ranks as one of the most promising politicians of his generation in Europe, but there is a difference compared to a year ago. The man fondly dubbed "Junior" by German Chancellor Helmut Kohl has visibly come of age – just when his country needs him most, at the onset of the EU presidency.

The maturing of Mr Juncker took place last December inside Dublin Castle where EU leaders had reached an impasse over German demands for the strictest possible rules to enforce budgetary discipline among members of the future single currency bloc.

With France, backed by Britain, insisting that Germany was violating the letter and spirit of the Maastricht treaty, Mr Kohl instructed Mr Juncker to play a broker role.

Thanks to his fluent French, German and English, and his detailed knowledge of the Maastricht treaty, the Luxembourger bridged the divide between the French and Germans and paved the way for a summit compromise.

Having been tested at the highest level and not found wanting, Mr Juncker must now show that he has the skill to steer the Luxembourg presidency. In his own mind, he has sketched out the priorities.

The first task is to guarantee a safe launch of the enlargement process to central and eastern Europe. He describes enlargement as "irreversible", but he is aware that the scope for division among the present 15 member states is real because it threatens existing rights and privileges. Enlargement, he says frankly, will not be popular once the process gets seriously under way.

To prepare effectively Mr Juncker has made an effort to get to know his central and eastern colleagues. He rattles off names and destinations east of the Oder with a slightly forced familiarity. However, senior EU diplomats agree thet Luxembourg has made a genuine effort to convince the applicant countries that it is enlargement-friendly despite the risk that its own influence could be diluted in a wider Union.

The second task is to respect the EU's own political calendar which is crammed with decisions over the next 12 to 18 months. This means finishing the EU's Intergovernmental Conference (IGC) on time in June 1997, laying the groundwork so accession negotiations can begin in 1998, preparing for a new EU budget, and ensuring that nothing jeopardises the launch of monetary union on January 1, 1999.

On the IGC, Mr Juncker says he is resigned to a fairly modest outcome. "I am a little sad. I would have liked us to respond to the momentum of the end of the century, and for everyone to have reacted with intensity and enthusiasm. "But," he jokes, "Chancellor Kohl does not share all my sadness or joys. He is more pragmatic. I have not left my political puberty, I want everything to be done quickly. Now I have to accept not everyone shares that analysis."

The self-irony is gentle, as is the criticism of the Maastricht 2 negotiations. The future treaty, he forecasts, will not be be something to marvel at eesthetically. The Dutch presidency is not to blame. The problem is that some countries are simply not ready or willing to move toward faster integration.

In this respect, the single currency is his great consolation. The world will not be the same once Emu is under way. "We will be engaged in a dramatic and irreversible process – thankfully irreversible – a process that will inevitably lead to a day-to-day deepening of the Union. No one will be able to put the brakes on the train."

He continues: "The real Europe will be organised around Emu. All those who want to nourish their ambitions will have no other choice than to come close to the core. People will not be at the heart of Europe if they are not in Emu. They will be mere spectators."

As for his own country's future, Mr Juncker is sanguine about the need for change. It is important to get away from the "monotheistic approach" to the economy which is built around financial services. Diversification is the name of the game.

As such, Mr Juncker is not afraid of tackling Luxembourg's withholding tax which is causing so much grief among neighbours, notably Germany. But he stresses that a solution can only be found in the context of a more general settlement on how to regulate unfettered tax competition in the EU.

By putting withholding tax on the table, Mr Juncker is signalling his willingness to tackle subjects long considered taboo in his country. His readiness to take on the powerful civil service unions through his plans to reform the generous pension rights is in the same vein.

"It will not make me popular," he edmits, suggesting it might affect his chances in the general election of 1999. "But I prefer to lose a battle than to lose the war in the next century."

But despite the jokes, with the effect of recently-announced income tax cuts for 1998 due to be felt most strongly as citizens complete their tax returns in spring 1999 – just before the election – few expect Mr Juncker's domination to be broken.

Lionel Barber

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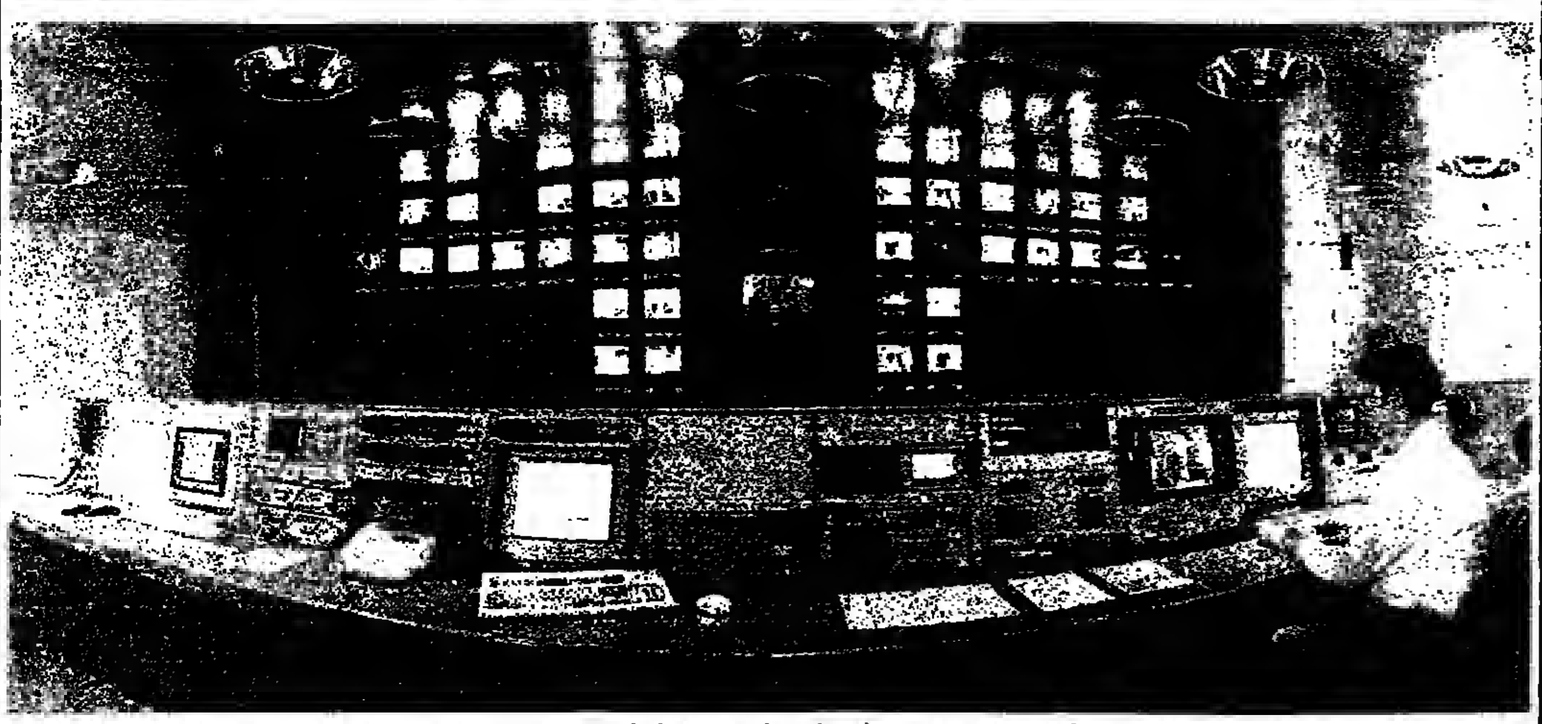
PROFILE Société Européenne des Satellites



Ground control at Betzdorf: digital compression technology allows a single transponder to broadcast more than half a dozen channels simultaneously

Space age role for château

Allocated satellite positions have proven to be a particularly lucrative franchise

Visiting Société Européenne des Satellites is a little like wandering on to the set of a James Bond movie. Amid the pastures and farmhouses of the Luxembourg countryside, a view suddenly opens up of the 18th-century Château de Betzdorf, beside a gleaming mirror-glass control centre, and a crop of white satellite dishes trained on the southern sky.

Behind the electronic gates, 250 staff from 20 nations control a group of satellites orbiting 36,000km out in space launched from as far away as Kourou, French Guyana, and Baikonur in Kazakhstan.

But the château is not home to some power-hungry villain plotting world domination. It houses one of Luxembourg's most successful companies of recent years, and, as operator of the Astra satellite system, a dominant force in Europe's satellite broadcasting industry.

The reason such a company is based in the Grand Duchy is similar to the reason Luxembourg houses one of Europe's biggest commercial TV companies, Compagnie Luxembourgeoise de Télédiffusion.

In the late 1920s, Luxembourg decided to grant a franchise to operate its internationally-agreed radio frequencies to private investors, rather than creating a public broadcaster. The Compagnie Luxembourgeoise de Radiodiffusion became Europe's first commercial broadcaster in 1931.

Just over 50 years later, the government similarly decided to grant a franchise to exploit satellite positions it had been allocated by the international authorities. By coincidence, the positions in geo-stationary orbit (effectively "fixed" above a particular point on the earth's equator) at 19.2 degrees East were well-suited to beaming broadcasts across Europe.

After a project involving US investors failed to get off the ground, SES was launched in 1985 by investors including Deutsche Bank, Deutsche Telekom, Dresdner Bank and Luxembourg public banks Banque et Caisse d'Epargne de l'Etat, and Société Nationale de Crédit et d'Investissement.

The idea was simple: to send satellites into space capable of beaming TV and radio signals back to earth, then rent the capacity to broadcasters. A decade later, demand has far outstripped the original forecasts, thanks partly to the development of digital technology.

SES already has six satellites at 19.2 degrees East. Astra 1A-1D satellites carry between them 64 transponders, or transmitters, each able to carry a single analogue television channel. The 1E and 1F satellites, brought into service last year, were the first devoted entirely to digital broadcasting.

Thanks to digital compression technology, which allows a single transponder to broadcast more than half a dozen channels simultaneously, the two latest satellites can carry more than 200 channels between them.

The 1F satellite also broke new ground as the first European commercial satellite to be launched on the Russian Proton rocket from Baikonur, in Kazakhstan. The first five were all launched on Ariane rockets from French Guyana, but SES says it will now use both launch groups.

By the end of 1996, Astra satellites were broadcasting to 67m households in Europe, either "direct-to-home" via 23m satellite dishes, or via cable networks receiving their signals from satellite. They carried more than 400 TV and radio channels for broadcasters including Mr Rupert Murdoch's BSkyB, France's Canal Plus, Turner Broadcasting, and German groups such as Premiere, ARD, DSF and Pro 7 – not to mention Luxembourg's CLT.

The new 1E and 1F satellites helped SES increase revenues 37 per cent to LFr14.06bn ($400m) last year, leading to a jump in profits from LFr2.87bn to LFr4.79bn.

With LFr2.06bn in taxes and franchise fees paid to the state last year, SES has become one of the biggest contributors to Luxembourg's public finances.

The pace of expansion is increasing. SES plans four launches this year and next. Astra 1G, to be launched this summer on the Proton rocket, will add 16 digital transponders at 19.2 degrees East, while Astra 1H, in late 1998, will be the first "interactive" satellite, able both to transmit and receive digital signals.

The so-called 2A and 2B satellites, to be launched in the final quarters of this year and of 1998, will open a broadcasting position for Astra, at 28.2 degrees East.

Most notable client for the broadcasting position is BSkyB, which has already leased 14 transponders for its digital satellite service to be launched next year.

The new launches will mark a decisive shift towards digital technology. By the end of 1998, six out of 10 Astra satellites, and 114 out of 178 transponders, will be digital.

The 1H satellite will mark a further shift, as the first able to carry interactive services. That will allow users of home shopping channels, for example, not just to receive information but to transmit information such as orders back via their 45cm satellite dish instead of via a telephone or modem.

This opens up other opportunities. SES has created a joint venture with Intel, the leading microprocessor chip maker, to operate a service called Astra-Net, linking satellite broadcasting with personal computers.

Astra-Net will allow swift transmission of data via satellite dishes to Pentium PCs equipped with a Digital Video Broadcasting PC card - making possible satellite "broadcasting" of the most popular World Wide Web sites, for example.

"In future we could envisage households having a server or hard disk in the basement linked to a satellite dish, feeding the television, the PC and the radio," says Mr Yves Feltes of SES.

Businesses will be able to rent communications time on the satellite, allowing them to transmit large amounts of data, at high speed, simultaneously to all their locations across Europe equipped with a satellite dish.

Retailers or manufacturers could use such facilities for swift updates of catalogues or stock information, or to transmit marketing information or even videos for point-of-sale multimedia kiosks.

SES predicts rapid growth for such services, forecasting that the number of European households with satellite dishes receiving Astra will increase from 23m to 40m within 10 years, 80 per cent with digital capacity.

Whether they realise it or not, millions of European TV viewers and PC users will in future be relying on a château in the Luxembourg countryside.

Neil Buckley

FUND MANAGEMENT • by Neil Buckley

Quest for growth beyond the frontier

Moves towards self-funded pension schemes are creating a new opportunity

Europe's ageing population could provide Luxembourg's fast-growing investment fund sector with a new source of growth: pension funds.

Of all the areas into which Luxembourg has diversified its economy since the 1970s, fund management has been one of its most spectacular successes.

It was swift off the mark in adopting into its own national law the European Union's 1985 Ucits, or Undertaking for Collective Investment in Transferable Securities, directive. That, plus its favourable legislative framework, gave it a head-start over other EU members in developing its cross-border funds sector.

In barely 10 years it has grown into the world's fourth-largest, and Europe's second-largest, investment fund centre, with $400bn under management, and 22 per cent of the European market.

Mr Patrick Zurstrassen, managing director of Banque Indosuez and former chairman of ALFI, the Luxembourg investment funds association, says growth continued faster, and for longer, than even the industry itself predicted. Now, however, some slowing is inevitable.

"We have probably reached the level of maximum tolerance," he says. "Other countries will not be happy if our market share grows much larger."

The search is therefore on for new avenues of growth, and the Luxembourg bankers' association, the ABBL, with its sister organisation, ALFI, have come up with a project they believe will fill the gap: cross-border pension funds.

Mr Zurstrassen believes the European investment fund industry could follow the pattern of its US cousin. The US market enjoyed rapid growth in the 1980s, slowed in the 1990s, then took off again when the government introduced the so-called 401K regulation, where corporations make available to employees a range of investment funds so they can choose and keep the benefits for their retirement.

The reason, explains Mr Lucien Thiel, general manager of the bankers' association, is that the "pay-as-you-go" systems operated by many European countries, where the working generation shoulders the pension costs of the retired generation, are coming under severe strain. Birth rates are falling while life expectancy rates are increasing.

Although Luxembourg is small, its own statistics mirror those of Europe as a whole. While people over 60 represent 38 per cent of Luxembourg's active population, in less than 50 years the figure will have leapt to 64 per cent.

That means a minority working population will be funding a majority retired population, requiring workers' contributions to more than double.

Countries must therefore inevitably start to exploit pension fund systems. While countries such as the Netherlands and the UK have already started to encourage investment in pension funds, Luxembourg's closest neighbours have all yet to see private pensions take off.

Countries must start to exploit pension fund systems

In Germany, only nine per cent of pensions are non-statutory, in Belgium 7 per cent, and in Italy 1 per cent; even in France, which recently passed legislation on retirement pension saving schemes, these account for only 24 per cent of all pensions.

"Luxembourg happens to be surrounded by countries which still operate an old-fashioned pay-as-you-go system," says Mr Thiel. "These countries are home to the bulk of the traditional clientele of our financial centre."

But creating a workable and attractive Luxembourg-based product will not be easy.

First, says Mr Thiel, "pensions must be life-long; they are not an investment instrument with a limited period."

Second, cross-border investors must be convinced a Luxembourg-based product will be more attractive than a fund in their own domestic market.

Finally, Luxembourg must create a product that can be adapted so it complies with the legal and social traditions of the pensions system in each European country.

The Grand Duchy's bankers believe they can create such a product that they may be helped by new moves from the European Commission to harmonise pension laws across the EU.

After a failed attempt to do that earlier in the 1990s, Mr Mario Monti, European commissioner for the single market, is soon to publish a green paper on EU pension reform.

Whether or not the EU acts, a model for an adaptable, cross-border product, developed by the ABBL, is now being assessed by independent consultants, due to report next month. If they approve it, the government will introduce legislation allowing Luxembourg banks to start creating and selling products based on this standard model – possibly as early as next year.

If the search for new niches will be one of the important trends in the investment fund industry, bankers predict another will be consolidation.

Administration costs for small players are too high, while pooling funds into larger companies can reduce costs.

The process has already started. Banque Générale du Luxembourg, the Grand Duchy's biggest, has joined with three partners – Kredietbank Luxembourg, Banque et Caisse d'Epargne de l'Etat, and Banque de Luxembourg – to create a company, European Fund Administration (EFA). All the partners will outsource their investment fund activities into the new company.

"There is pressure on margins and pressure on prices," says Mr Kik Schneider, secretary-general of Banque Générale du Luxembourg. "We decided it was best to put our funds together to achieve economies of scale."

Banque Indosuez has joined with Générale de Banque, Belgium's biggest, and Crédit Agricole of France to create new investment fund venture, called Fastnet Luxembourg.

Mr Zurstrassen of Indosuez says consolidation will increase. "If there were 15 [investment fund] competitors five years ago, and now there are just seven or eight, in two to three years there will be three to four," he says.

Such streamlining will also be required to help Luxembourg-based groups compete with other centres such as Dublin's offshore International Financial Services Centre, which has been aggressively wooing banks by offering incentives such as a 10 per cent corporate tax rate.

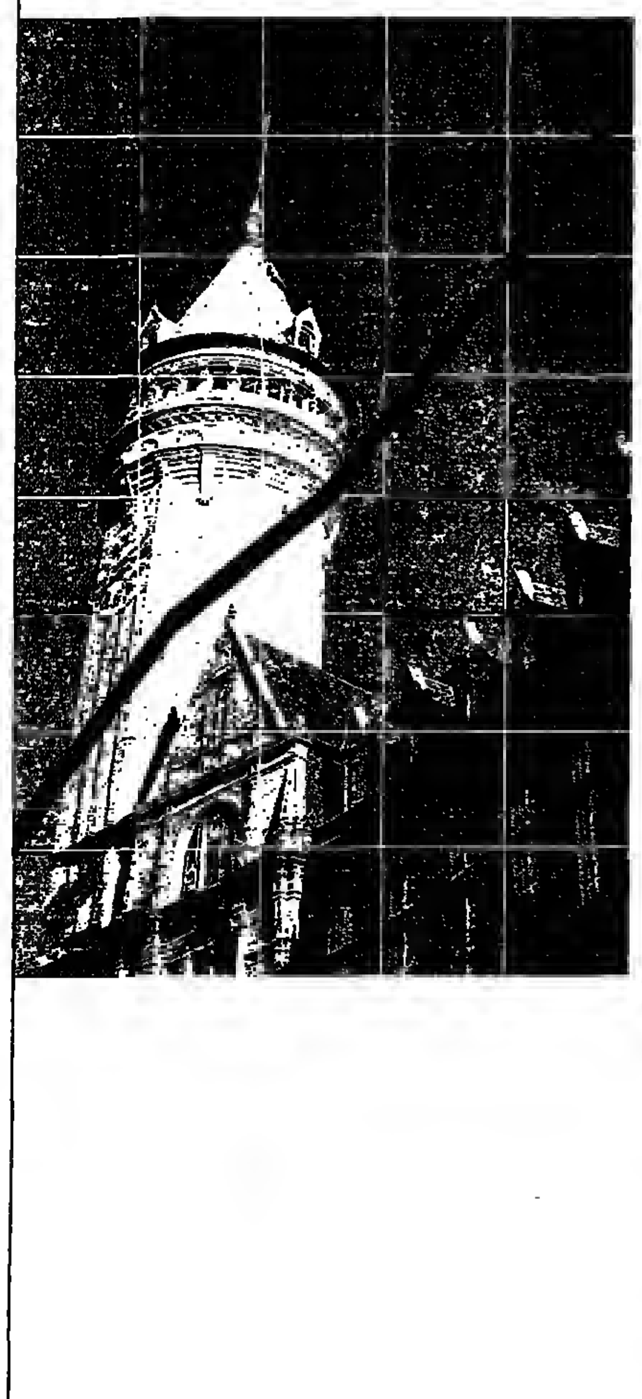
The move by Deutsche Bank's Luxembourg subsidiary to shift some operations to Dublin earlier this year has concentrated minds on the need to remain competitive.

Mr Ekkehard Storck, head of Deutsche Bank Luxembourg, warns that internationally-active companies are taking increasing notice of varying national tax rates.

"Thus the competitive disadvantage of Luxembourg in this respect has become more serious," he says.

While the government recently accelerated cuts in corporate tax rates, pressure from the financial services sector for more tax cuts is unlikely to ease.

BCEE Highlights 1996



Rapid progression of activities and financial results

Key figures (in millions of francs)

	1994	1995	1996	Variation in % 96/95
Balance sheet total	**711,940**	**790,717**	**878,229**	**+ 11.1%**
Amounts owed to customers and debts evidenced by certificates	457,309	479,576	553,312	+ 15.4%
Loans and advances to customers	190,789	209,139	205,593	- 1.7%
Basic own funds (tier 1 capital)	20,823	22,609	24,606	+ 8.8%
Net bank margin	9,070	9,753	10,508	+ 7.7%
Net profit	**1,605**	**1,774**	**1,979**	**+ 11.6%**
Staff (in number of contracts)	1,717	1,742	1,763	+ 1.2%

Main developments in 1996

- Rapid growth of the balance sheet total (+ 11.1%) and of the net profit (+ 11.6%)
- Exceptional performance in the field of savings deposits (+17.2%) and of BCEE's in-house sicavs in francs (+ 44.8%)
- Progression of housing loans (+ 6.4%) and of the volume of new loans to individuals (+5.2%)
- Launch of the Lux-Garantie sicavs with a guaranteed return on investment
- Introduction of a supplementory pension scheme (Spuerkeess-Rent) and a new alternative savings scheme
- Launch of the new home banking product S-Line
- Extension of the self-banking equipment (S-Bank) at 57 branches
- Active preparation for the introduction of the euro

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Reinforced

Continued from Page 2

redundancies, but with help from government job programmes and early retirement subsidies), and the long products sector represents 20 per cent of group turnover, compared with nearly half a few years ago.

Arbed is completing the changeover from the traditional blast furnace steelmaking process to electric arc furnaces and continuous casters. The change should bring productivity gains but these have been slow to materialise and a slimline structure being introduced will reduce the workforce even further to 6,000.

The contrast is with the flat products sector, which produces steel sheet for customers including the automobile and white goods industries and includes a burgeoning downstream processing industry.

Initially based on the Sidmar group at Ghent in Belgium, the sector has grown to account for some 43 per cent of group turnover following the acquisition of the former Klöckner Stahl in Bremen (now known as Stahlwerke Bremen).

The OCAS flat products research at Ghent is a fulcrum for research and development efforts designed to boost the role of steel as a high-technology material.

They include the ULSAB project, a joint effort by more than 30 steel producers to make a steel car body up to 35 per cent lighter than the current generation – and see off any challenge from aluminium.

Arbed is active in the areas of stainless steel; wire drawing (steelcord for auto tyres, hose wire for high pressure hoses and low carbon wire for industrial and everyday uses such as nails); engineering, notably equipment for steelworks; and copper foil for the electronics industry. It also has extensive mining and steelmaking interests in Brazil.

Another important sector is the group's sales and trading companies, whose turnover last year amounted to LFr38.4bn (16.5 per cent of the total). New York-based Arbed Americas contributed LFr1.1bn of the sector's LFr1.3bn gross operating profit, selling output from its steelworks in the North and South American markets but mostly products originating elsewhere.

Can Arbed keep its independence? Officials scoff at recent bid rumours, pointing to the security provided by the Luxembourg state's direct and indirect holding of around 25 per cent of the voting capital, the result of a debt-for-equity swap in the 1980s. However, says Mr Kinsch, "we are always open to partnerships".

Simon Gray

Television / Christopher Dunkley

Bad in hot pursuit of good

Not very long ago (well, only a few years) this column was casting one eye across the pond to the United States, and another across the newly Thatcherised arrangements for broadcasting in Britain, and warning that serious television journalism could soon be under threat.

Ratings were changing from a driving force into a god; tabloid values were *spreading out* from the breakfast schedules to colonise the entire day; and although commissioning editors were publicly denying that they wanted more "infotainment", behind their hands they were telling producers to make programmes more "sexy", an odd word in *broadcasting jargon*, having little to do with procreation and much to do with sensation.

My fear was that, in a television version of Gresham's Law, bad would drive out good. And was that fear justified? As so often in these matters the answer, however annoyingly, is yes and no. No, serious journalism has not disappeared from British television. In the past 10 days there has been an impressively diverse collection of thoughtful programmes, including a chilling report on Iranian terrorism by Jane Corbin in *Panorama* on BBC1. This was the sort of work that may not attract the biggest ratings for factual programmes, but which impresses by the depth of its research and the coherence of its story. At the beginning some may have been sceptical about the notion of organised Iranian terrorism way beyond the Rushdie fatwa, but you would have to be stupid or biased to be entirely sceptical by the end.

Dispatches on Channel 4 delivered an account of appalling inefficiency and, allegedly, something more culpable at Kent and Canterbury Hospital Trust where there were said to be failures over several years to take accurate readings from cervical smear tests. The producers spoiled the effect somewhat by repeated use of the "we can reveal" cliche, which diverts attention from the scandal on to the journalists and sounds self-important as well as over excited.

Still, there is a lot of that about: you hear it frequently on *The Cook Report* on ITV which must be a candidate for the "infotainment" tag, given the way that Cook offers himself up as reporter and punchbag combined. However, his programme last week, giving the other side of the Asil Nadir story – suggesting that the unconventional Nadir has been repeatedly framed and victimised – involved none of that punchbag malarkey. It did a public service by extending the spectrum, always so much more valuable, and invariably more difficult, than retailing received wisdom.

World In Action proved its integrity by going back yet again to Northern Ireland, most notorious of all the "switch off" subjects, for a saddening report on three attacks on young men: one Roman Catholic, one Protestant and one member of the Royal Horse Artillery. Those are just some of the better examples of recent serious journalism; there are more. There is also an increasing quantity of "personality" journalism, some of which is clearly infotainment of the most blatant sort. However, the best of it gains its quality of entertainment not from the subject matter but from the personality of the reporter, a long established and highly respected phenomenon in print journalism.

I am still not convinced that Clive Anderson, who is a good comedian and chairman, has more than modest talents as a reporter, but *Clive Anderson In The Bronx* was better than his previous efforts. (It may be that many of those in power in television today do not know what really good reporting looks – and sounds – like because they have never seen any. They should get James Cameron's work out of the archives and find out. Today's TV celebrities cannot do what Cameron did).

The best current examples of the personality form are in the BBC1 series *The Lying Game* in which Angus Deayton has been introducing us to some truly amazing liars. As so often with programmes of this sort it is the research that counts – last week's star, Sid Chaney, the pensioner who has "borrowed" £107,000 from the high street banks, mostly on credit cards in the name of his parrot, in an attempt to publicise some grouse about insufficient compensation, was a priceless find – but Deayton's style and tone are ideally suited.

Yet the answer to the original question was yes as well as no: yes, there are reasons to fear that bad could drive out good. Growing numbers of supposedly factual programmes leave the viewer wondering how much "reality" is being inspired, or even created, by the producers. A couple of weeks ago *Modern Times* on BBC2 consisted of a collection of remarkably explicit conversations about sex between hairdressers and clients. In the same week *Cutting Edge* on Channel 4 recorded a sequence of one-night-stands, featuring straight men and women and homosexual men. It was impossible to be sure how many of the events in either programme would ever have existed but for the cameras. This line of country looks very like the territory entered about 20 years ago by the tabloid press where entertainment counts for more than truth.

We are also seeing more and more factual programmes in which the excitement of expensive drama material is provided at lower-cost either by the use of video footage supplied by the emergency services, or by the re-staging of harrowing "real life" events after the manner of *Crimewatch*. BBC1 has done a clever job in *999* which now intersperses its real attractions – "See the man trapped in the wreckage! Read the agony on his face! Share the mother's terror when she can't locate her family after the road crash!" – with little public service homilies about learning first aid and taking out holiday insurance. The most dubious programme of the lot, however, must be *X Cars* on BBC1 on Fridays. This relies almost entirely on video material obtained by "a Manchester police undercover car crime unit". It is undeniably exciting stuff, all shot from the passenger seats of high-powered cars as they pursue villains through dark city streets. There is, perhaps, no particular reason why the young men in the police cars should be having less fun than the young men in the stolen cars, yet it was worrying to hear one policeman, in reaction to a poster declaring "Godless people will be judged and destroyed" say "No, don't destroy them, it'd take away all the fun".

A far more worrying ethical problem is this: the fleeing villains only take off at high speed, and start to drive really dangerously – on the pavement, crashing between cars as children are met outside a school – when the pursuing police turn on their siren. If you were a policeman in mufti in an unmarked car would you turn on your siren and risk that sort of response, or would you sneak along quietly behind until you could block the thieves in traffic? The answer seems obvious, until you add the question: what if you knew that *X Cars* was looking for the most exciting footage?

Opera

Return of the tragic Kát'a

Janáček's dispassionate voice of conscience is lacking, says David Murray

At the Royal Opera, David Edwards has revived Janáček's village tragedy *Katya Kabanova* in Trevor Nunn's 1994 production, warmly received at the time. They still call it *Kát'a Kabanová*, preferring the opaque Czech title to the familiar, user-friendly Russian transliteration.

The characters *are* Russian, like Ostrovsky's original play. Up *to a point*, the Royal Opera's preference for composer's-own-language titles is admirable – but only just so far, and anyhow it is inconsistent.

I do not recall hearing Rimsky's *Zolotoy Petushok* there, but I remember *The Golden Cockerel* (or was it "Le Coq d'Or"?) very well. It would be merely silly in London to bill Janáček's last opera *From the House of the Dead*, after Dostoievsky, as *Z mrtvého domu*.

Why pretend that your audience consists of polyglot musicologists?

The new *Katya* cast is partly the old one, again conducted by Bernard Haitink: tenderly sympathetic to the hilt, though the unanimity of his orchestra would have been improved by one more run-through beforehand. Revivals get the short end of the stick when it comes to rehearsal times.

The monstrous mother-in-law, the "*Kabanicha*", is again Eva Randová, who seemed wearily detached from the proceedings on Friday. She made a bleak, horrid mother-of-her-son, but wielded no authority as a pious pillar of the community, which left her as a mere domestic nag. Katya's illicit lover is again sensitively sung by the American tenor Keith Olsen, and played honestly as the spineless *roué* that he is. Gwynne Howell repeats his bumbling, pompous old Dikoy, but the production makes nothing of his abjectly revealing *tête-à-tête* with Kabanicha.

A glamorous newcomer to the cast is Nadja Michael's Varvara, Katya's perky foster-sister: lovely, seductive mezzo, too sexily sophisticated by half – but nobody is going to complain about that. J. Patrick Raftery is the unmanned mother's-son Tikhon, broadly but pertinently sketched, and Timothy Robinson indulges himself as Varvara's happy-go-lucky lover to shamelessly appealing effect.

The new Katya is Eva Jenis: sharply honest in feeling, occasionally strident, given to balletic poses in the old-fashioned Slovakian manner (a drawback here).

Amid all these public portrayals, Janáček's serene, dispassionate voice-of-conscience made itself felt only occasionally, not often enough.

Continuing in the Royal Opera repertoire until 6 June; last two performances sung by Elena Prokina, the original Katya of this production.

Eva Jenis, in the title role, is sharply honest in feeling but given to old-fashioned balletic poses Alastair Muir

Theatre / Ian Shuttleworth

The Warp decathlon

It is simply impossible to review *The Warp* according to any standard criteria. Ken Campbell last directed Neil Oram's 10-play cycle for his Science Fiction Theatre of Liverpool in 1980. Then it lasted between 22 and 24 hours.

Last weekend's "zero-budget" performance on Three Mills Island, Bromley-by-Bow, London, clocked in at a over 29 hours, during which time the lead actor came close to collapse, a number of scenes were accompanied by the snores of the sleeping author from beneath one of the dozen sets of stage rostra in the promenade space, and the mystical Italian community of Damanhur set up an "energy spiral" in the courtyard outside.

The main interval, at breakfast time on Sunday, also saw a 20-minute performance of *War and Peace* from Marcel Steiner's Smallest Theatre in the World.

Oram's plays are thinly veiled autobiographies, recounting the search for both cosmic and earthly identity of his surrogate Phil Masters over two decades, beginning in the late 1950s with UFO sightings in Rhodesia and taking in everything from Scientology to Sri Rajneesh, from beat poetry to Buckminster Fuller and the Findhorn community.

The plays have dated terribly. This has enabled a younger generation of performers to take a more humorous approach to a number of scenes. It has also meant that the copious scenes of metaphysical navel-gazing hold far less intrinsic interest than they once did. As Phil undergoes more and more savage relationship difficulties with various partners in the later plays, the cycle takes on more of the texture of a New Age soap opera.

However, the status of *The Warp* as an event has always transcended particular criticisms of the plays themselves. Over the weekend a Blitz spirit bonded the international cast of 30 or more and the audience, who numbered perhaps 150 when events kicked off in Phil's past life in 15th century Bavaria but had dwindled to around 40 at the close in 1977 Sutton Coldfield. The energy and dedication of the company were necessarily phenomenal, with the communal intimacy of the proceedings bestowing a fluidity and ease of performance style: the only actor whose work I have seen before, Benedick Bates, was palpably liberated in his several roles by the nature of "the *Warp* decathlon".

In the role of Phil Masters, Alan Cox was heroic. As Campbell pointed out in a preliminary address, "Phil appears in every scene except four, and they're very short ones". Cox's concentration and drive beggared belief: this was more than the theatrical equivalent of a marathon runner merely keeping his legs moving to the finishing line. Even though, as he put it, he "fell at the seventh" and moved back on to the book for major speeches after a recuperative and therapeutic 90-minute break at Sunday lunchtime, his characterisation and delivery remained top-notch throughout.

At the end he deserved to be chaired around the place.

After several years of solo or near-solo performances, Ken Campbell has proved that he can still expertly orchestrate a *folie de grandeur*.

Ken Campbell's solo show Theatre Stories opens the "From Stand-Up Theatre To Sit-Down Tragedy" season at Brentford Watermans on June 3 and 4 (0181-568-1176).

INTERNATIONAL
ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Pieter Wispelwey: performance by the cellist accompanied by the violinist Richard Tognetti and pianist Robert Levin. The programme includes works by Schubert; May 31

■ ATHENS

CONCERT
Athens Concert Hall Tel: 30-1-7282333
● Orchestra of the Friends of Music: with conductor Theodore Antoniou and violinist Leonidas Kavakos in works by Rota, Ligeti, Schnittke, Antoniou and Alexiadis; Jun 1, 2

■ BARCELONA

EXHIBITION
Museu Picasso Tel: 34-3-3196310
● André Derain 1904-1912: display of 60 works by the French artist, concentrating on the years 1904-12, when Derain established a lasting friendship with Picasso, the two artists becoming major influences on each other's work; to Jun 29

■ BERGAMO

CONCERT
Teatro Donizetti Tel: 39-35 399 320
● Quartetto Accardo: performs works by Brahms and Schubert. Part of the Festival Pianistico Internazionale di Brescia e Bergamo; May 31

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Rundfunk-Sinfonieorchester Berlin: with conductor Michail Jurowski, alto Doris Soffel, counter tenor Derek Lee Ragin, tenor Eberhard Büchner, bass Siegfried Lorenz and the Rundfunkchor Berlin in works by Schoenberg, Stravinsky and Schnittke; Jun 1

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden Tel: 49-351-49110
● Le Nozze di Figaro: by Mozart. Conducted by Hans-E. Zimmer. Soloists include Andreas Scheibner, Brigit Fandrey and Christiane Hossfeld; May 31

■ ECHTERNACH

CONCERT
Festival International d'Echternach Tel: 352-728347
● Orchestre Philharmonique du Luxembourg: with conductor Vassily Sinaisky and pianist Akiko Ebi in works by Brahms, Haydn and Ravel; May 29

■ GLASGOW

EXHIBITION
McLellan Galleries Tel: 44-141-3311854
● The Birth of Impressionism: from Constable to Monet: exhibition featuring over 300 works, setting the impressionist movement in a social, scientific and historical context, looking at the affects of photography, new paint technology and the coming of the railways on artists including Millet, Rousseau, Courbet, Degas, Monet, Pissaro, Manet and Cezanne; to Sep 7

■ HELSINKI

DANCE
Opera House Tel: 358-9-403021
● Finnish National Ballet: performs Firebird, choreographed by Uotinen to music by Stravinsky, Duende by Nacho Duato choreographed by Uotinen to music by Debussy and Le Spectre de la Rose choreographed by Preljocaj to music by Carl Maria von Weber; to Jun 14

■ LIEGE

OPERA
Théâtre Royal de Liège Tel: 32-42-235910
● Madama Butterfly: by Puccini. Directed by Roger Rossel, performed by Opera Royal de Wallonie. The cast includes Asayo Otsuka, Miao Qing, Ignacio Encinas, Marizio Giossi and Antoine Normand; to May 31

■ LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● James Lisney: the pianist performs works by Bach, Schubert and Gershwin; May 31
St. John's, Smith Square Tel: 44-171-2221061
● Neal Davies: performance by the bass-baritone, accompanied by the pianist Simon Over. The programme features works by Schubert; May 30
EXHIBITION
Whitechapel Art Gallery Tel: 44-171-5227888
● Krishna The Divine Lover: exhibition celebrating the Hindu god, bringing together over 120 miniatures dating from the 16th to the 18th centuries, featuring different events from Krishna's life story; from May 30 to Jul 27

■ MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Miriam Gómez-Morán: the pianist performs works by Haydn, Mozart and Beethoven; May 31

■ PARIS

DANCE
Théâtre National de l'Opéra – Opéra Garnier Tel: 33-1 42 66 50 22
● La Sylphide: choreographed by Pierre Lacotte after Philippe Taglioni to music by Schneitzhoeffer; from May 28 to Jun 1
EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Made in France 1947-1997, 50 ans de Création en France: exhibition of works from the permanent collections of the Centre Georges Pompidou and the Musée National d'art Moderne celebrating respectively the 20th and 50th anniversaries of the museums. Included are works by Braque, Calder, Chagall, Duchamp, Ernst, Matisse, Picasso, Balthus, César, Dubuffet and Klein; to Sep 29

■ ROME

OPERA
Teatro dell' Opera di Roma Tel: 39-6-481601
● Il Barbiere di Siviglia: by Rossini. Conducted by Gianluigi Gelmetti. The cast includes Anna Caterina Antonacci, Daniela Barcellona, Paul Austin Kelly and Bruno Praticò; May 29, 31

■ THE HAGUE

CONCERT
Dr Anton Philipszaal Tel: 31-70-3607927
● Residentie Orkest: with conductor Evgeny Svetlanov in works by Brahms; May 30

■ VENICE

EXHIBITION
Palazzo Grassi Tel: 39-41-5231680
● Dalle Fiandre a Paesi Bassi l'antica storia dell'arte moderna: axhibition of Dutch and Belgian art of the 20th century, featuring 150 works by artists including van Gogh, Ensor, Magritte, Delvaux, van Dongen, Sluyters and Appel; to Jul 13

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Philharmoniker: with conductor Nikolaus Harnoncourt and violinist Gideon Kremer in works by Berg and Schubert; May 31; Jun 1
OPERA
Konzerthaus Tel: 43-1-7121211
● Una Cosa Rara: by Soler. Conducted by Jordi Savall and performed by the Wiener Kammerorchester and the Hugo Distler Chor. Part of the Nationales Musikfest der Wiener Konzerthausgesellschaft; Jun 1

■ ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6666
● Don Pasquale: by Donizetti. Conducted by Nello Santi. Soloists include Isabel Rey, Ruggero Raimondi and Reinaldo Macias; May 30; Jun 1

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European Money Wheel

18.00
Financial Times Business Tonight

Ian Davidson

One certain loser

Chirac's gamble of calling elections in France early to free him for the final manoeuvres on Emu has failed

The political authority of Jacques Chirac, France's president, has never been a particularly reliable commodity. But after Sunday's first round of voting in the French general elections, it has been deeply damaged, probably beyond recall.

It may seem too early to make such a judgment. The second round of voting is still to come next Sunday, and the final result could go either way.

The opposition Socialist party looks the more likely winner: it did significantly better than expected, and with its Communist allies, came out well ahead of the moderate conservative parties. But if the conservatives can succeed in mobilising their natural supporters, and thus reverse Sunday's very low turnout, they might yet scrape home.

It is already clear, however, that there is one certain loser: Mr Chirac. When he called the vote, a year ahead of time, he believed this would facilitate his position in the run-up to the launch of the European single currency in May next year. In reality, it has made his position more difficult.

Economic and monetary union is no more popular in France than anywhere else, largely because it is widely associated with high unemployment. The president had hoped that, by getting the election out of the way, he could avoid any danger that the single currency would be thrown off-track by domestic politics.

Doubt remains whether France is securely on course for the single currency, since it is not certain that its budget deficit this year will come in safely below the stipulated ceiling of 3 per cent of gross domestic product. If the deficit were to remain too high in the months ahead, Mr Chirac would need to be able either to raise taxes or cut spending. But it would have been difficult, perhaps impossible, to carry out any last-minute fiscal tightening in the run-up to general elections. So he gambled on holding the elections early, freeing his hands for the final manoeuvres ahead of Emu.

That gamble has failed. Whoever wins the second round of voting, the first round constitutes a massive repudiation of Mr Chirac and of the conservative government led by Mr Alain Juppé.

This looks like an acute case of poetic justice. When Mr Chirac campaigned for the presidency two years ago, he promised lower taxes, lower unemployment, and a healing of the fractures in French society. In practice, in the name of Emu, he has presided over higher taxes, higher unemployment and a widening of the social fractures. In short, Mr Chirac got himself elected on a wholly false prospectus, and he and his political allies are now paying the price.

Whether the transition to Emu is likely, as a matter of theory, to entail higher taxation and higher unemployment, is an interesting question, but one which I leave to others. A more intriguing and more practical question is: what is likely to happen now?

Many authoritative French commentators have taken the view that France is likely to go ahead with the single currency, even if the left wins the election. The Socialist party is in general committed to the objective of Emu, even if it has reservations about the terms. And, in any case, the abandonment of monetary union would have such horrendous political consequences for the European Union, and for France's place in it, that it simply is not a rational option.

Up to a point, this seems a plausible view. Monetary union is not just a treaty commitment, one which is arguably essential for the completion of the single market. It has become the centrepiece of the European integration process, and a central element in the vital Franco-German partnership. Emu will go ahead, because it must.

But that leaves the question: on what terms? It seems to me that, on any reading, Sunday's vote could be a serious blow to the credibility, not just of Mr Chirac, but of Emu itself. Let us suppose that French economic growth falls short, and that the budget deficit fails to come even roughly into line with the 3 per cent ceiling. It is now highly unlikely that any government can be formed after this election which would be in a position to tighten the fiscal screws before the launch of the single currency. And it follows that no government is likely to be able to tighten the fiscal screws *after* the launch of the single currency.

So if the French economic numbers look seriously out of line, the EU will have an invidious choice: it could postpone the start of Emu until France gets a plausible government, which could be a postponement *sine die*; or it could turn a blind eye, take the plunge, and just hope.

This election crystallised a deeper issue, that of whether France really is committed to monetary union and all it entails. If you look at inflation, currency stability and export performance, the answer seems to be yes. But if you look at popular resistance to reform of corporatist interests, of public spending and of the public sector generally, the answer appears to be no.

When in 1986 François Mitterrand, the Socialist president, and Mr Chirac, then Gaullist prime minister, agreed to support the objective of a single market, the rest of the EU heaved a sigh of relief that France had been converted to economic liberalism.

They may have sighed too soon. For even if the French political establishment has been persuaded that the market must be embraced, it appears from the past two years, and from Sunday's vote, that the electorate has not.

False prospectus: Chirac and his allies have paid the price

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to ... e-mail: letters.editor@ft.com Published letters are ... Translation may be available for letters written in the main international languages.

Fed a strong champion of its role in bank supervision

From Mr John K. Lawrence.

Sir, Your article concerning the chancellor of the exchequer's plan to strip the Bank of England of its supervisory powers over banks ("Birth of Brown's brainchild", May 23) was somewhat misleading in its assertion that such action would bring the Bank "more in line with ... the Federal Reserve". The board of governors of the Federal Reserve System, in addition to its responsibility for monetary policy, plays an integral role in the supervision of banks in the US.

The board regulates the operations of bank holding companies and their non-bank subsidiaries, and examines all state-chartered banks which are members of the Federal Reserve System. The board has repeatedly stated that its direct involvement in such supervisory activities, which extends to most leading US banking organisations, is an essential source of information in its formulation and execution of monetary policy. The board has consistently opposed legislative proposals to transfer its bank supervisory functions to other agencies.

While the chancellor's plan to withdraw bank supervision from the Bank of England may have its merits, bringing the Bank of England more into line with the structure and culture of the Fed's board of governors is not among them.

John K. Lawrence,
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An age-old suggestion

From Mr Andrew M. Wood.

Sir, I always enjoy Lucy Kellaway's column, but her analogy of suggestion "boxes" being a symbol of a new style of management ("A parallel from the progressive 1970s", May 19) was not a good one. Suggestion boxes have been around for several hundred years, though it is rare today to see actual boxes; what the modern management style has done is to see a greater involvement of managers and supervisors in the idea-generation process.

She is also jumping to erroneous conclusions when she equates empowerment to a lack of leadership. Leadership is a whole different issue, often confused with management. There is a view that many organisations are over-managed but under-led. Even the use of teams involves leadership; every team needs a leader for it to be effective.

The main difference in the modern style is that in the past managers paid attention to return on investment, market share, product cycle time and customer satisfaction. Now a fifth element is added: employee satisfaction.

Andrew M. Wood,
managing director,
Ideas Management,
PO Box 329, York, UK

BAA should charge a market rate

From Mr Gideon Nellen.

Sir, British Airways has apparently been excluded from the government's impending windfall tax on privatised industries, yet it receives annually a huge windfall from subsidised landing charges at London's Heathrow airport.

It has been conservatively estimated that landing charges at Heathrow are priced at about three times below what the market would pay.

The statutory framework is responsible for this perverseness because in setting an overall return for BAA plc – which derives most of its income from retail rents and car-parking – the regulators cap landing charges.

In June 1996 the UK Monopolies and Mergers Commission report on BAA plc said: "The airports, particularly Heathrow, were in effect privatised on the basis that the ability to earn above average returns on assets should accrue to airlines ...".

Last year BAA earned £260m from landing charges at Heathrow. If market-based charges were applied, an extra £500m would have been generated which could have accrued directly to the exchequer. British Airways, which holds 38 per cent of the Heathrow slots, therefore enjoyed a windfall subsidy of almost £200m last year alone.

Hopefully, the new Labour government will see the revenue-raising opportunity in introducing market-based landing charges at Heathrow as these would also begin to recognise the environmental damage the airport is causing to London and dampen the insatiable demand for ever more slots and terminal capacity.

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UK

Evidence on globalisation effects remarkably consistent

From Mr Phillip Swagel and Mr Matthew Slaughter.

Sir, We want to disagree with Professor Wood's claim (Letters, May 9) that on "the alleged contribution of globalisation to rising inequality in advanced economies ... there remains wide divergence of academic opinion". As we document in our paper mentioned by Martin Wolf ("Global opportunities", May 6) and available on the International Monetary Fund's internet home page (*www.imf.org*), what is remarkable in fact is the broad consistency of the literature to date that import competition accounts for only a modest portion of rising inequality, with Wood's own research being a notable and much debated outlier. Future research, including our own in progress, may well find a larger role for globalisation, but for the present this case is not widely or convincingly supported by analysis of the data.

Our conclusion is based, not as Professor Minford (Letters, May 15) asserts, on "partial data" and incomplete models, but rather on a number of careful studies undertaken by leading trade and labour economists. Perhaps this does not match the evidence of "eyes and ears" to which Wood refers, but we believe that an important role of academic research is to investigate whether popular notions indeed square with rigorous analysis.

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Lack of strategy has brought deadlock, says **Judy Dempsey**

Souk-style haggling for Mideast peace

When a manager of a Tel Aviv investment house started making preparations for a conference in London next month, he decided not to invite any Israeli politicians. "We are fed up with this government," he explains. "After a year in power, it has no strategy. It has no idea how to push forward the peace process."

Bafore Mr Benjamin Netanyahu was alected prime minister a year ago tomorrow, the domestic and international business community could not get enough exposure to politicians involved in tha peace process. Expectations were high. Peace would attract more investment to Israel, it was thought. And the prospects of extending prosperity to the rest of the Middle East offered real possibilities.

Snch hopes have dissipated since the breakdown of the peace talks in March. There has beeo bawilderment over Mr Netanyahu's apparent lack of strategy to implement the 1995 Oslo peace accords. Yesterday's failed summit between Mr Netanyahu and Mr Hosni Mubarak, president of Egypt, did little to raise spirits.

Peace talks were suspended earlier this year by the Palestinians when Mr Netanyahu unilaterally decided to build a new Jewish settlement at Har Homa in east Jerusalem, severing links with the Palestinian-controlled areas of the West Bank. The Palestinians insist they will not return to the negotiating table until the Har Homa project is halted and the expansion of all Jawish settlements on confiscated land in the West Bank stopped.

The Israelis are equally adamant that they will continue to build at Har Homa. They will only restart talks if the Palestinians resume security co-operation – suspended after the Har Homa dacision – and do more to crack down on terrorism.

So far, no amount of pressure from Washington, the United Nations or the Arab world has persuaded either side to return to the table. Analysts believe the lack of a coherent strategy on both sides is to blama for the deadlock.

The Oslo accords were "imposed" on the Netanyahu administration, says Mr Natan Sharansky, the Israeli trade and industry minister. "The prime minister was elected on his criticism of Oslo. On the ona hand he has an obligation to continue with the Oslo accords. On the other, there are ideological pressures [from nationalists] which he has had to contend with," he says. "It is difficult to have a policy which is not in clear contradiction with the process, but at the same time where the process can be defended."

Other Israeli analysts go further. Precisely because the Oslo accords were imposed on Mr Netanyahu, they believe, the prime minister wants his own agreement with the Palestinians, which would be less open to interpretation. "Netanyahu wants to survive for the next three years and then win the alection," says Mr Shmuel Sandler, political scientist at the Bar Ilan University in Tel Aviv. "In the meantime he will try to have his own agreement – as if to distance himself from Oslo."

Mr Saeb Erekat, Palestinian chief negotiator, says he has seen signs in recent months that the Israelis are trying to change the ground rules of the peace process. "We want to stick to the Oslo framework," ha says. "But the Israelis no longer focus on it. Instead, they bring up different issues, arguing that because of the nationalist and far-rightwing pressures in tha government, they are only prepared to give in on this or that issue – as if they were bargaining in a *souk* [market]". But, he adds: "Oslo is not a *souk*. It is a process and we have to stick with it."

Yet the Palestinians, unequal partners from the start of the Oslo process, do not have a clear strategy for conducting the peace negotiations. Neither do thay appear to know how to go about building their own civil society in order to strengthen their bargaining position ahead of the negotiation of a final settlement.

Mr Yassir Arafat, president of the Palestinian Authority, has repeatedly blocked attempts to create such a society, needed to bridge tha transition from revolutionary tradition to a democratic state.

He has failed to rally his people around the Oslo accords and has marginalised the legislative council, which is supposed to become the Palestinian parliament. Earlier this week, a report from the Palestinian Human Rights Monitoring Group said torture of prisoners was endemic. Mr Arafat has also turned a blind eye to corruption.

"In the absence of democracy, popular mobilisation will be deflected into a catastrophic confrontation between Palestinians and the Palestinian Authority, instead of Israel," says Mr 'Azmi Bishara, philosophy professor at Birzeit University in the West Bank, and one of the few Arab members of the Israeli Knesset.

Writing in the latest issue of the Journal of Palestinian Studies, Mr Bishara argues that Palestinians are not presenting a united front in the peace talks. "Instead of the Palestinian Authority taking on Israel on its own, there could have been a confrontation between the Palestinian people and Israel," he writes. "The Palestinian polity needs to demonstrate that it is worthy of making tha transition to statehood. This would increase the pressure on Israel very significantly."

But, as Mr Bishara points out, preparing for statehood in the West Bank and Gaza is beset by practical problems. Palestinians are not free to travel between these regions in spite of an agreement by Israel as part of the Oslo accords. Neither is there a corridor for the free flow of goods between the West Bank and Gaza. The Israeli stranglehold is as tight as ever on the struggling economy and on the fledgling state.

Mr Erekat believes that, without any progress on these issues, growing resentment against Oslo, against Israel and even against the Palestinian Authority could play into the hands of extremists. This could lead to more terrorist attacks and possibly to unrest inside the West Bank, he says. Such an outcome would in turn harden Mr Netanyahu's resolve to carve out his own agreement.

Unless the Palestinians adopt a coherent strategy, Mr Bishara believes, the future for Palestine is bleak. "Since territorial sovereignty is lacking, sovereignty over institutions will have to take its place," he says, referring to the ability of Palestinians to create independent and democratic civil institutions.

If not, he says, then Palestinians could find themselves in the same position as black South Africans undar apartheid, with dreams of an autonomous state turned into a Middle-East version of Bantustan.

Sticking point: work at the Har Homa settlement yesterday

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Wednesday May 28 1997

Mr Yeltsin makes a move

The fact that Mr Boris Yeltsin agreed to sign the Founding Act for Nato-Russia consultation in Paris yesterday is greatly to be welcomed. It opens the way for Nato enlargement, which will reassure the emerging democracies of central Europe, and keep the US involved in European security. It will give Russia "a voice but not a veto" in the alliance. In effect, it ends the division that was set at Yalta. But it still leaves much to be done to ensure security in the post-Cold war world.

The problem is that Russia remains an unpredictable partner. Mr Yeltsin's impromptu announcement that nuclear warheads would be removed from missiles targeted on Nato members was confirmation of that. Nobody was sure what he meant. The gesture appears to be symbolic rather than substantial, and the presentation thoroughly confusing.

But the Nato deal should open the door for a series of further important moves by Moscow to provide reassurance. First, bilateral security arrangements are needed with its immediate neighbours, including Ukraine, the Baltic republics, and other members of the former Soviet Union. They are still profoundly suspicious of the former colonial power.

Second, Moscow must hasten the process of military reform, without which its armed forces are being rapidly reduced to bankrupt ineptitude. The disturbing reality behind the fine words in Paris yesterday is that Russia's conventional forces are in disarray, making the temptation to use the nuclear option all the greater. Numbers must be rapidly reduced, and the forces professionalised.

That process will cost money, which the Russian government does not have. There is a case for the western allies to provide financial assistance, at least for redundancy payments. Money is also urgently needed for the maintenance of Russia's nuclear missiles, which are by many accounts in as parlous a state as the conventional forces. The danger is not of being targeted by a Russian missile, but of having one explode by mistake.

It is essential that the Russian Duma rapidly ratifies the Start-2 treaty on nuclear arms limitation, to clear the way for negotiating the next round of deep cuts in a Start-3. Mr Yeltsin should throw his political weight behind that process. In theory, the Cold war is a thing of the past. In reality, its legacy lingers on.

UK Budget

It may be beginner's luck. But Mr Gordon Brown, the UK chancellor seems to have the ball rolling nicely on the numbers for his forthcoming Budget. Mr Kenneth Clarke, the former chancellor, found a mysterious hole in tax receipts which pushed his forecast for this year's public sector borrowing requirement to £19bn, much too high for a "booming" economy.

Now, the missing billions have returned, to provide the chancellor with some much-needed extra chips. Public finances in April were unexpectedly in balance and the PSBR for last financial year was £3.6bn less than the Treasury expected in November. This raised some hopes that Mr Brown may not, after all, need to raise taxes to restrict public borrowing to the level of public investment – his "golden rule".

Yesterday, the Institute for Fiscal Studies and Goldman Sachs, the investment banker, predicted in their "green budget" that the PSBR could be down to about £14bn this year. They suggested that the combination of tight spending targets and rises in tax revenues already in the pipeline could bring public finances into balance by 2000 without tax rises.

However, before heeding this advice, the chancellor should examine the assumptions on which it is based. The most important is that a Labour government will be able to keep the real growth in public spending to zero over the next two years. This looks implausible in the extreme. Even the most austere of governments would have difficulty in resisting pressures to sustain health and education services, as public finances start to look markedly better.

The IFS itself points out that if the government allows health spending to rise only at the same rate as under the Conservatives, the budget will be overspent by £3.5bn by 1999-2000. A rather modest growth in overall spending in line with past trends would result in £24bn of extra borrowing by the end of this parliament.

Moreover, if the government is serious about the golden rule, it now needs even on the IFS's latest projections to reduce borrowing by about 1 per cent of GDP. That would be £8bn, or the equivalent of more than 4p on the basic rate of income tax. The need to tighten early is reinforced by growing evidence that the economy is running at close to full capacity. At such a stage in the cycle, public finances should be close to balance, or arguably in surplus. After all, in 1988-89, when the Conservatives foolishly allowed the economy to overheat, the PSBR reached a surplus equal to 3 per cent of GDP. Just five years later, after 3m had become unemployed, the deficit had swung to 7 per cent of GDP.

With a huge parliamentary majority behind him, Mr Brown now has the chance to seize control of public finances, decelerate growth to a non-inflationary rate and so reduce the need for damaging interest rate rises. The improvement in tax receipts makes the task a little easier than it might have been.

If he fails to act, there is a real danger that inflation could be let out of the bag. Soaring interest rates, sterling in trouble and unemployment rising? If the nightmares of the early 1990s now seem remote, the chancellor's task must be to keep them far from view.

Payback time

After years of diplomatic grandstanding, the US has persuaded the rest of the OECD to make corporate bribery of foreign officials a criminal offence. The US deserves its victory. That it is illegal to bribe home country officials in most OECD countries but legal, even tax-deductible, to suborn foreign ones has long been an unacceptable anomaly. But passing a law is one thing, enforcing it quite another.

The US campaign has been partly driven by self-interest. Ever since the Foreign Corrupt Practices Act of 1977 made foreign bribery illegal, domestic US businesses have complained that it tied their hands (their back-hands, presumably) unfairly when competing for foreign contracts. Now, US companies who feel they have been out-bribed will have formal grounds to complain.

The agreement has a more important, albeit symbolic, importance in that OECD countries are admitting that cracking down on corruption involves punishing the briber as well as the bribee. This will be considered overdue in developing countries, who have – rightly – resented the portrayal of bribery as a matter of companies being "corrupted" by unscrupulous officials.

That said, it is at least questionable whether the agreement will have as much practical impact as the US has claimed. The agreement states that an international treaty will be drafted by the end of the year, and that individual governments will have proposed new national legislation criminalising foreign bribes by this time next year. But the first part of the timetable could well be optimistic. And France, Germany and others are unlikely to go ahead with domestic legislation without it.

There is an even more fundamental question about the OECD plan: namely, how is it going to be enforced? What happens when country X decides that country Y is not implementing the new laws vigorously enough? The OECD has no answer. In that sense, recent moves to use the World Trade Organisation to set global standards on transparency in public procurement would seem more promising. The WTO has clear procedures for resolving disputes, and transparency, after all, is probably the most powerful anti-corruption tool there is. Higher penalties can only go so far: the best deterrent to briber and bribee is visibility.

When the mask cracks

Wide-ranging reform of the way business and finance is carried out is changing the face of Japan, says William Dawkins

A silent revolution is dismantling the constraints on Japan's economy and helping to erode the tradition of consensus which has ensured that the broad interests of society come before market efficiency.

The changes have taken place unannounced. Foreign attention has focused on the government's 2,800-point deregulation programme which includes the so-called Big Bang proposals to open the financial markets to competition. This reached a decisive stage last month when parliament agreed to scrap remaining foreign exchange controls.

Wide-ranging and ambitious, the deregulation plan is however only one feature of a larger advance of market forces at all levels of the most tightly controlled economy in the developed world.

This silent revolution is pervasive enough to bring structural change, immune from economic or political pressures. It presages a fall in Japan's unusually high prices, already under way in services such as stockbroking and commodities, including petrol and food.

This has led to growing disparity between profitable businesses and weak ones and will – so the Tokyo government hopes – spark a rise in the country's growth potential. Foreign governments, worried about Japan's ability to boost demand for imported goods and to stop the trade surplus from rising, have reason to be cautiously optimistic.

"Change is incremental, but much more change is taking place than surface appearances would indicate," says Mr Takashi Inoguchi, professor of political science at Tokyo University.

"The consensus-driven centralised system of decision-making ... is on the verge of collapse," says Mr Eisuke Sakakibara, historian and director-general of the finance ministry's international finance bureau.

The origins of the silent revolution are partly to be found in a shift in political opinion which has given impetus to official deregulation. For the first time, all Japan's main political parties – even the protectionist Social Democratic party – campaigned for deregulation in last autumn's general election.

That consensus formed late. It was an overdue response to the economic slowdown that began six years ago and the rise of the yen to Y79.75 to the dollar in April 1995, which rendered much of Japanese industry internationally uncompetitive.

The yen has since fallen more than 30 per cent. But the consensus for deregulation appears to have held. Mr Ryutaro Hashimoto, the prime minister, has vowed to achieve structural economic reform "even if it burns me up".

Evidence of his government's sincerity is the impressive list of deregulation steps actually delivered – rather than just talked about – over the past year. Neither has there been any effort to soothe the associated short-term pain, a tendency which softened the impact of previous attempts to cut red tape.

In finance, for example, the essential first step of the government's plan to make Tokyo's financial markets as efficient and open as those in London or New York is under way with the agreement to abandon exchange controls.

Senior finance ministry officials say that, in the first onslaught of competition, there will be no attempt to rescue the smaller stockbrokers and banks. That onslaught has already started, in the form of a commission-cutting battle for trade in over-the-counter shares.

"There can be no soft landing because there is nowhere to land," says Mr Goro Tatsumi, president of Kosei Securities, a small Osaka-based broker.

In the same vein, the ministry has ignored resistance by Japanese insurance companies to a market-opening agreement with the US. In energy, the end of a cartel on oil imports has prompted petrol prices to fall by a fifth, causing domestic oil refiners' profits to collapse and obliging two leading refiners to merge.

In transport, permission was granted last October for the formation of four new domestic airlines, the first in 46 years, to operate on the world's busiest route, from Tokyo to Sapporo. Partial deregulation of taxi fares was allowed last month, a crack in one of Japan's doughtiest cartels.

In telecommunications, Nippon Telegraph and Telephone, the dominant carrier, is to be split, along US lines, between a long-distance and international group and two local operators by 1999. It has already been obliged to open its domestic lines to foreign companies.

Beneath this government-driven deregulation, the advance of market forces is visible in many areas, including capital markets, and in the way companies treat each other and their employees.

Take the share and debt markets. Equity investors have, over the past six months or so, begun to recognise that it is no longer realistic to value companies on the basis of their membership of a group or sector. Share prices are not moving in predictable bands between and within sectors, as they did previously on the assumption that stronger companies would always bail out weaker ones.

Over the past year, for example, the shares of securities companies have under-performed the market by just over a quarter, while precision instruments groups – hardened by years of export competition – have out-performed by about the same amount. Divergence as great as this is unprecedented, say analysts.

This is in part recognition that fewer losers will be bailed out, as became apparent late last year when the finance ministry ordered the closure of Hanwa Bank, a small regional lender, in the first enforced shutdown of a bank in more than half a century. Share price divergence "is also about who can survive and succeed in the face of deregulation", says Mr David Pike, head of research at BZW Research in Tokyo.

A similar polarisation has been seen in bond markets. The most notable example is how the daily fundraising costs of Nippon Credit Bank, the troubled lender, shot up above the average for its peers in February, when news broke of its bad debt problems. Previously, long-term credit banks were valued as a group on the same comforting assumption as equities. The same trend is occurring among bonds issued by manufacturers, especially trading companies and heavy machinery groups.

As a result, credit rating agencies are giving increasingly divergent ratings to members of the same sector, driving up the financing costs of weak companies.

Mr Masaru Kakutani, managing director of the Japanese branch of Moody's, the US rating agency, says: "We used to think that members of a group would be supported. But then we went round company presidents and asked about support. They said members were on their own until the last minute. That means there will be losses."

He adds: "We are seeing significant differences in the way different businesses are managed. Trading companies are an example. Ten years ago, they behaved as a group and we rated them as such. Now, some have diversified into high technology and some have kept a strong centre, based on their traditional business."

The growing acceptance that it pays to be different is evident in the way the heads of some leading companies describe strategy. The annual report of Mitsubishi Corporation, one of the largest general trading groups, talks of "leaving stereotypes behind". Toshiba promises "agility and change", while Fujitsu, the computer maker, wants to promote "innovation at all levels".

These companies are increasingly putting themselves – and profits – before relationships within the sector. Divisions have opened up over the past few years in the *keiretsu* system of corporate families which consists of loose alliances between suppliers, manufacturers, distributors and banks linked by dozens of cross-shareholdings.

It is no longer heresy for a *keiretsu* member to buy supplies outside the group, or to borrow from an unrelated bank. Mr Katsunobu Onogi, president of the Long Term Credit Bank of Japan – a rare example of a non-*keiretsu* bank – says he is prising more corporate clients away from *keiretsu* because borrowers have become "more product-oriented than relationship-oriented".

Market forces are also advancing in the way companies pay employees. Last month's annual wage bargaining round marked a break with the tradition of roughly equal pay rises for all.

Unusually, workers in internationally competitive industries, such as cars and electronics, earned much higher awards than less profitable – often domestically oriented – sectors such as banking, or public utilities. Rail employers even split into three groups, with three different offers related to individual profitability.

All this invites the question of how far Japan's silent revolution will progress. A pure free market, in which the strong thrive at the expense of the weak, is incompatible with values that most Japanese wish to retain. These emphasise low unemployment and trust in the group – hangovers from its rural, village-based history.

Many executives and policymakers speak wistfully of a halfway house, retaining the best of both systems. The finance ministry's Mr Sakakibara espouses a "balance between efficiency and public responsibility".

But will Japan be able to achieve such a golden mean? The experience of other countries that have undergone economic deregulation, such as the US and the UK in the 1980s, show that the consequences are difficult to predict and futile for governments to try to control. These look like turbulent times for the Japanese village.

OBSERVER

Russian roulette

[illegible] Gump of being starry-eyed about things Russian, Strauss, a [illegible] Texan, formulated one of [illegible] memorable comments [illegible] post-Soviet economy. If he [illegible],000 and wanted to make [illegible] he would take it all to [illegible] he said. And if he had [illegible] wanted to double it, he [illegible] still take $100,000 to [illegible]

Bread fruit

[illegible] Lyonnais, the French state-owned bank, was yesterday celebrating a deal to support [illegible] farmers under an EU aid scheme. Not content with whatever it makes out of lending to banana producers in the sunny French protectorate, its PR effort involved sending bunches of the yellow fruit to 50 journalists around Paris – doubtless the boost in demand will help the farmers, too.

Boating weather

■ British trading *hongs* Jardines and Swires have been trimming their sails for Hong Kong's return to Chinese sovereignty, securing mainland partners or paying respects in Beijing. Now they are clambering aboard a lavish spectacle to mark the July 1 handover, signing up to help sponsor a fleet of barges which will cruise around Victoria harbour amid fireworks and lasers.

Modestly billed as Asia's party of the century by its organisers, the HK$100m price-tag is being footed by some 34 companies and local tycoons. Just a few weeks after Henry Keswick, the head of Jardines – which weathered a squall or two after supporting governor Chris Patten's political reforms – chatted in Beijing with senior leaders, the flotilla should mark a further step in *rapprochement*. Smoother sailing may lie ahead, provided of course the handover escapes a seasonal typhoon.

Hound sense

■ German insurance group Allianz has been discovering just how dangerous a dog can be in a car crash "or if sudden braking causes him to be hurled through the passenger compartment". Observer doubts whether Fido will be too pleased either if he gets a clear run past the family to hit the windscreen at 50 miles an hour.

Apparently 80 per cent of dog owners haven't got pooch protection in their cars and, after much testing with dummies and stuffed toys, Allianz's crack team has the answer: a contraption involving "a rectangular steel-pipe frame with net-like straps held in place by two vertical supports and secured by straps at hip belt mounting points" to withstand forces of up to 3 tonnes. Then all you need is a volunteer to strap in the family rottweiler.

Venerable beads

■ Ireland's next export to China could raise eyebrows among Beijing officialdom. Reggie Donnelly from Belfast, a charity and pilgrimage organiser, has launched an appeal to ship all the unwanted rosary beads in Ireland to China for distribution among the estimated 10m Catholics there. Such is the state of affairs in the former bastion of the True Faith that he hopes to get 5m sets of beads – an average of one per Irish person. "I'm sad to have to say it, but if people in Ireland won't use their rosaries, maybe they will give them to people who will."

Cash flow

■ Construction worker Kim Nam-shik, fed up with South Korean political scandals, yesterday went to the 27th floor of a hotel beside Seoul city hall and threw out leaflets calling politicians liars and thieves – along with $4,100 in notes. He was arrested on traffic charges after people got out of cars to chase the loot, causing road chaos. Police recovered $89.

The Financial Times

100 years ago

A Brilliant Display
This being the Diamond Jubilee year of the Queen *[Victoria]*, and with loyalty overflowing in all directions, it seemed only natural that the Royal Military Tournament should be by far one of the best and most brilliant of such displays. The Prince of Wales, accompanied by other members of the Royal Family, was received by a unique guard of honour, composed of representatives of all the Colonial and Imperial troops in London including detachments of the New South Wales Lancers, Cape Mounted Rifles and Dyaks of the North Borneo Police.

50 years ago

U.S. Steel Industry
Washington, 27th May. The magazine Steel reports prospects bright for continued peace-time steel output with labour relations the best since 1946 and the long-term peace outlook favourable. Scrap and raw materials are flowing to the mills in volume, presaging continued near-capacity operations. Mr Murray of the C.I.O. has forbidden steel strikes during the next two years and has ordered meticulous respect for union contract obligations.

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US resumes diplomatic quest for Northern Ireland solution

New peace initiative steps up pressure for IRA ceasefire

By Jimmy Burns in London

The US government is discreetly stepping up pressure on the Irish Republican Army to declare a ceasefire as part of a renewed diplomatic offensive over Northern Ireland.

Senior officials of the US National Security Council who advisa President Clinton on Northern Ireland have telephoned leaders of Sinn Féin, the political wing of the IRA, to build on what Washington believes is the new prospect for peace after Labour's general election victory.

It is thought that additional contacts are being pursued through other US officials.

The contacts are thought principally to have involved Mr Gerry Adams, Sinn Féin president. Washington believes his hand has been strengthened in the Republican movement after he was elected MP for West Belfast – though he will not take up his seat at Westminster.

The fresh involvement of the US follows more than a year during which the Clinton administration has distanced itself from Northern Ireland politics because of the IRA's continuing military campaign and the absence of any workable peace formula emanating from London or Dublin.

"Clinton is clearly once again interested in helping strike a deal over Northern Ireland and we welcome that," an Irish official said yesterday.

The US move has the blessing of the UK and Irish governments, which believe that President Clinton's "honest broker" role could become crucial in helping restore momentum to the peace process. It is part of a concerted strategy, which includes continuing talks between Sinn Féin leaders and UK and Irish civil servants, and a conciliatory statement on Northern Ireland which is expected to emerge tomorrow when President Clinton meets Mr Tony Blair, the British prime minister, in London.

The two leaders are expected to discuss a range of issues including Bosnia and the European Union, but Northern Ireland is expected to be a key part of the agenda.

President Clinton is expected to stress publicly tomorrow that a new window of opportunity for constructive dialogue has been opened up.

While he will be calling on the IRA to declare an unequivocal ceasefire, officials on both sides of the Atlantic are working on the basis that the earliest this could be secured is July, in return for Sinn Féin being admitted into full talks at the end of the summer.

Washington is thought to be optimistic about progress as long as the IRA persists in its *de facto* ceasefire and the UK government can ensure that decommissioning of arms forms a part, not a focus, of the talks with other Northern Ireland political parties due to resume in Belfast on June 3.

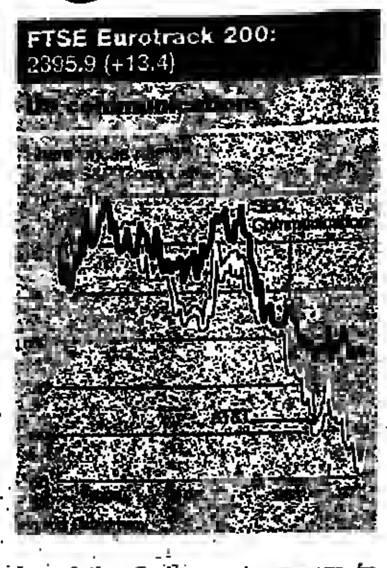
Although the UK government is publicly wary of being seen to adopt a softer approach towards the IRA, US and Irish officials have privately welcomed what they regard as a series of subtle confidence-building measures by Ms Marjorie Mowlam, the new Northern Ireland secretary.

Mowlam in talks, Page 7

THE LEX COLUMN

Ring Ma Bell

The idea that old Ma Bell might end up swallowing one of her babies sounds gruesome, but is entirely logical. Last year's US telecoms deregulation effectively reversed the 1984 split of the monopolistic Ma Bell into one long-distance operator – AT&T – and seven local Baby Bells, by allowing them to compete in each others' markets. Already the seven have merged into five, while three profit warnings from AT&T show how rapidly it is losing market share, both to new, nimble operators like WorldCom and to its own offspring.



A merger with SBC Communications, one of the best-managed of the Baby Bells might reverse that decline, by giving AT&T access to SBC's customer base in California and Texas. As long-distance margins have come under pressure, value has shifted to local networks: the Baby Bells made an average return on sales of 23 per cent last year against 17 per cent for AT&T. SBC, in return, would get access to AT&T's international network. And with AT&T capitalised at just over $60bn and SBC worth around $35bn, this deal would dwarf even the BT/MCI merger, putting Mr John Walter, AT&T's new president, on the map.

Yesterday's muted share price reactions on both sides underline that this deal is by no means done and dusted. SBC may argue for a premium to reflect its stronger strategic position. But if it does go ahead, it will put pressure on the other Baby Bells, such as Bell Atlantic, to find international partners; Cable and Wireless springs to mind.

US banking reform

You would have lost a lot of money anticipating US financial reform. The enticing promise of an end to Depression-era limits on links between banks, securities brokers and insurers has been a hoary perennial in almost every Congress this decade. But political and industry infighting has always killed it. Now, just as the US Treasury has announced support for removing most of the walls between different financial services companies, some bankers appear to be going off the idea of change altogether.

In the last year, banks have scored an important breakthrough without political aid. They have been granted special permission from the two main regulators, the Federal Reserve and the Comptroller of the Currency, to engage in limited non-banking activities. Some managements suggest they might prefer the flexibility these regulators are offering to the prospect of a rigid statutory framework erected by meddlesome politicians.

But that view is short-sighted, placing the narrow interests of a few powerful institutions ahead of the system as a whole. US financial regulation, for all its new found flexibility, is a mess. A range of different regulators supervises institutions not by function but by scale and geographical region, according to rules laid down 65 years ago. The Treasury's move should be applauded. It has brought somewhat closer the possibility that a hint of rationalisation might at last be allowed to enter the process.

EMI

The all-conquering Spice Girls and the allure of a £520m share buy-back failed to put the zest back into EMI's ailing shares. The problem is that highly rated shares are expected to deliver high rates of growth. EMI's growth rate has slumped and it is now having to face the music. Its response has been a £117m charge to reshape its US record business and improve on a lowly 5 per cent margin – and it is making the most of it by sweeping bad debts from distressed retailers under the carpet.

EMI's recent experiences have been more Beastie Boys than Spice, so it is understandable that the management is adopting a cautious approach. Strong sterling continues to impede profits growth and there is no new technology to drive sales as the compact disc did through the 1980s. Nonetheless, the US has bounced back from stagnant sales values over the past two years, and the global trend is in the right direction. EMI's release schedule looks stronger this year. And the buy-back underlines the cash generative nature of the business.

For a company trading on a prospective price-earnings ratio of 21, the immediate prospects still look somewhat pedestrian. But consolidation in the music industry is inevitable, and EMI is the most obvious participant. Mergers with either MCA or Bertelsmann should be achievable without regulatory problems. For those looking for the next Grand Metropolitan/Guinness-style deal, EMI remains a fair bet.

UK taxes

Do British taxes really need to rise? The Institute for Fiscal Studies/Goldman Sachs Green Budget is a valiant, but sadly overstated, attempt to puncture the gloomy consensus. It is true, as the IFS points out, that the Conservatives' plans already imply pretty tough tax rises and spending limits. The snag is that they look implausibly so. Even the IFS's revised figures, which sensibly assume the corset will have to be relaxed a little, imply that public spending under Mr Tony Blair will represent a significantly lower percentage of gross domestic product than it did under Mrs Margaret Thatcher. And even then, public borrowing would be cut to 1 per cent of GDP only by 1999-2000 – after seven years of healthy economic growth. To interpret that outcome as consistent with Labour's "golden rule", which requires borrowing to be at this level *over the cycle*, demands impractically rosy spectacles.

Then consider the politics. To Mr Blair, the IFS scenario must look horribly like five years of public sector misery, followed by the risk of deteriorating public finances just as the next election approaches. Politically, it surely makes better sense to raise taxes now. Nor is the IFS/Goldman counter-advice – effectively, to shove interest rates up by 100 basis points and just hope the pound falls back nevertheless – terribly persuasive. A further dose of fiscal tightening is not by any means the only treatment the economy needs, but it would certainly help.

Additional Lex note on Halifax, Page 23

Cairo plans aim to break Mideast talks deadlock

By Mark Huband in Sharm el-Shiekh

Egypt has drawn up a set of proposals which could break a two-month deadlock in the Middle East peace process and bring Israeli and Palestinian leaders into direct talks.

Following three hours of talks with Mr Benjamin Netanyahu, the Israeli prime minister, in the Egyptian resort of Sharm el-Sheikh yesterday, President Hosni Mubarak of Egypt said he had put new proposals to the Israeli premier and would arrange a meeting between Mr Netanyahu and Mr Yassir Arafat, the Palestinian leader.

The proposals marked a shift away from Arab demands that the settlement policy, which is a key to Mr Netanyahu retaining the support of his right-wing coalition partners, be abandoned outright.

In an exclusive interview with the FT after meeting Mr Netanyahu, President Mubarak said: "It may not be called new concessions. It's a kind of narrowing the gap between the two sides. We came to some kind of understanding on both sides that we have to work to narrow the gap. This was much better than the previous meeting [with Mr Netanyahu in March]. There was much more flexibility than the previous one. And we met with an objective, which was have to work on."

Mr Mubarak refused to reveal details of the proposals, but formed the initiative after a two-hour discussion with Mr Arafat in Cairo on Monday, suggesting that the Palestinian leader had agreed to proposals being put to the Israelis.

The meeting with Mr Arafat centred on Israel's construction of the Jewish settlement of Har Homa, in the East Jerusalam Arab suburb of Jabal Abu Ghneim. Control of the area was to be negotiated at talks on a final settlement which were abandoned on March 18 when building began.

"Before the meeting with Mr Netanyahu, I asked Arafat to come and see me to discuss what options there were, what they need, what they would accept, what they couldn't accept, their limitations. After two hours I understood what was in his mind. His fear of the Jabel Abu Ghneim – especially this," Mr Mubarak said.

"I asked Prime Minister Netanyahu: what can you give? And I explained to him the fear of the Palestinians. And the restrictions they are facing. He told ma some options, and said he needed to maka some consultations. And at the same time I will make consultations with Arafat. I hope it will be done within four or five days."

Mr Netanyahu says he will not abandon work at Har Homa. Diplomats said the aim of his visit was to press President Mubarak into accepting that Palestinian expectations should be lowered.

Souk-style haggling, Page 14

Chirac in TV appeal

Continued from Page 1

campaign attacks on the government for trying to impose a rightist view of Europe. Mr Chirac also underlined that Europe must be ambitious in the social and welfare field.

Mr Lionel Jospin, the Socialist leader, immediately criticised soma of Mr Chirac's propositions as "generalities" and others as plagiarised from the Socialists' own programme, adding the president had already had two years to implement his ideas.

"The only way to change is to change the majority" in the National Assembly, Mr Jospin said. He said he would not increase public spending but would redistribute public funds to job creation.

For the first time in the campaign, the Socialists plan joint rallies with the Communists later this week. The two parties, who differ over Europe and the auro, campaigned in competition with each other in the first round, but now neeed to pool their votes in Sunday's deciding run-off contest.

AT&T rises on merger talk

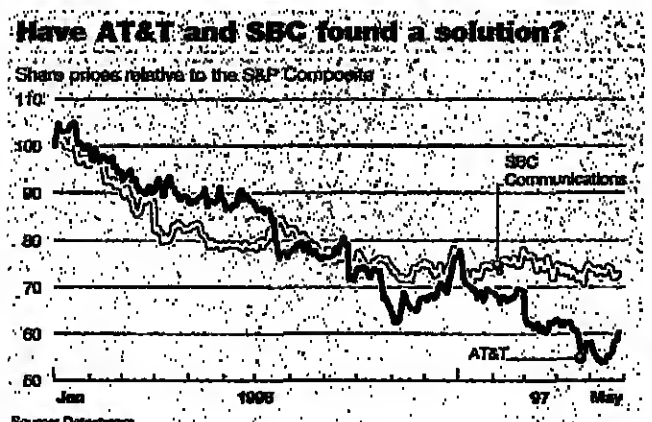
Continued from Page 1

Department recommended the Federal Communications Commission turn the application down on the grounds that there was insufficient competition for local services in Oklahoma.

Analysts said a deal between AT&T and SBC was feasible, but a likely pre-condition would be an opening-up of SBC's market to competition – and even then the deal could take two years to complete.

Mr David Roddy, chief telecommunications economist at Deloitte & Tonche Consulting, said: "It's going to be like putting a man on the moon, this pact. It won't be easy, and it will be a dangerous mission. But what the antitrust and regulatory authorities want is a competitive marketplace, and if consumers have alternatives that are easily accessible, then that would be the ultimate test."

Have AT&T and SBC found a solution?



Source: Datastream

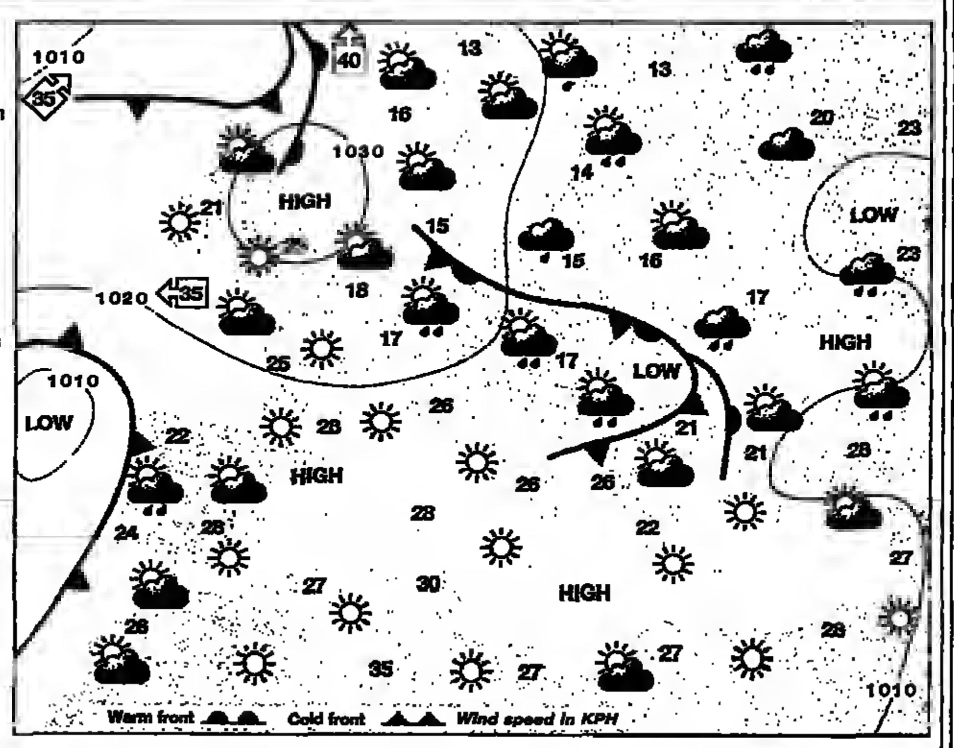
FT WEATHER GUIDE

Europe today

The British Isles will be sunny, while the Benelux will have sun mixed with clouds.
Germany may be showery, while Poland will have rain. Southern Scandinavia will be mainly dry with some sun.
France and eastern Spain will be sunny.
North-western Spain and Portugal will have rain and thunder showers. Italy will be sunny, while the Balkans will have showers. Greece will be sunny.
The Black Sea coast of Turkey will have sunny weather with some cloud and showers.
The Mediterranean coast will be sunny.

Five-day forecast

High pressure over the British Isles will expand slowly eastwards. Conditions over the UK will stay fair, while the weather will improve over north-western Europe.
High pressure will also bring plenty of sunny weather and seasonable temperatures to the Mediterranean.

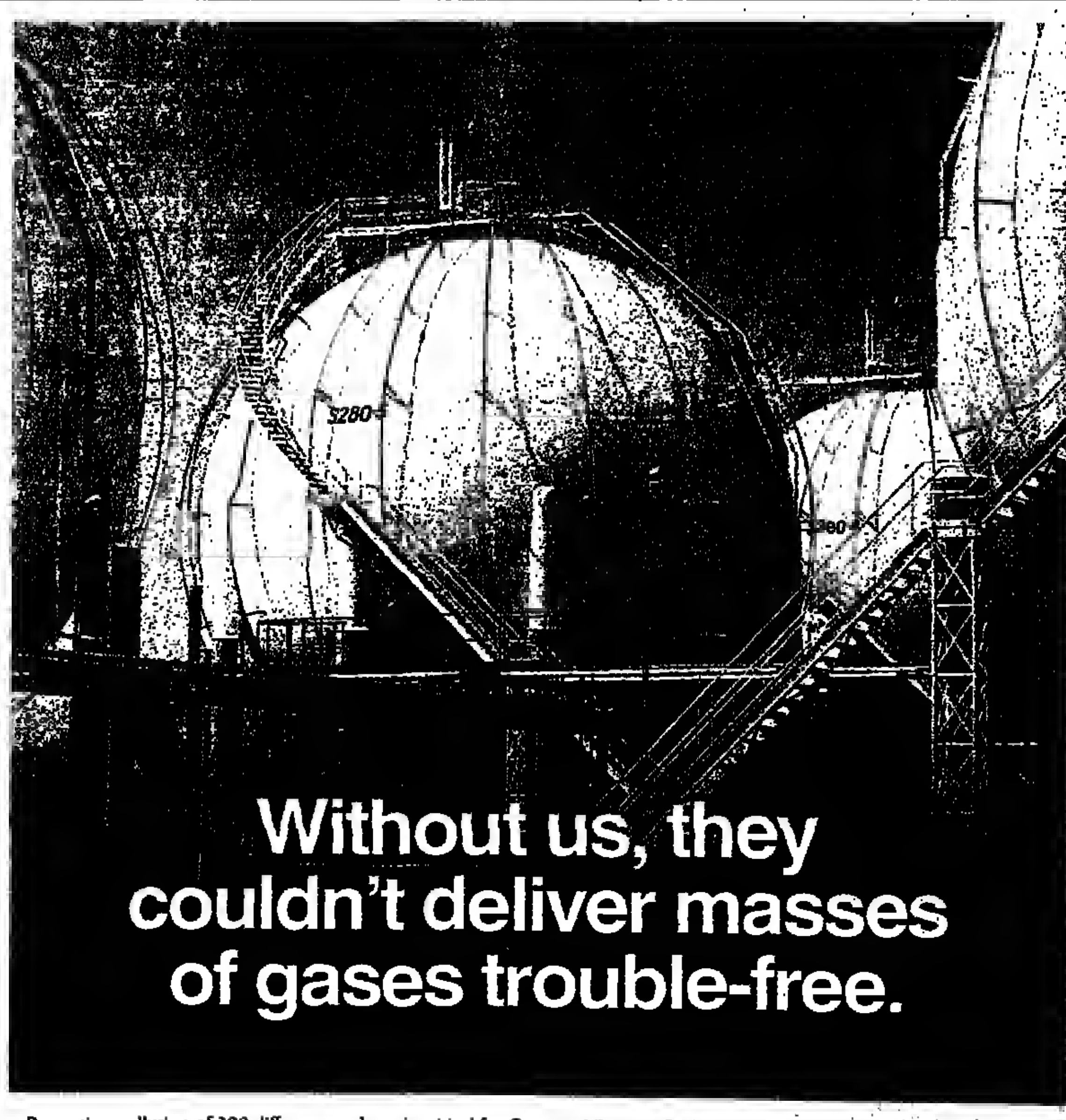


Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 23	Caracas	fair 30	Faro	fair 21	Madrid	fair 27	Rangoon	shower 32
	Celsius	Belfast	sun 21	Cardiff	sun 20	Frankfurt	fair 18	Majorca	sun 29	Reykjavik	rain 9
Abu Dhabi	fair 36	Belgrade	shower 17	Casablanca	cloudy 23	Geneva	sun 24	Malta	sun 27	Rio	fair 28
Accra	thund 31	Berlin	shower 17	Chicago	shower 22	Gibraltar	fair 25	Manchester	sun 19	Rome	sun 26
Algiers	sun 26	Bermuda	fair 26	Cologne	fair 17	Glasgow	fair 20	Manila	shower 32	S. Frsco	sun 24
Amsterdam	fair 17	Bogota	fair 16	Dakar	fair 27	Hamburg	shower 18	Melbourne	fair 17	Seoul	shower 25
Athens	sun 26	Bombay	fair 33	Dallas	fair 31	Helsinki	shower 15	Mexico City	thund 27	Singapore	fair 33
Atlanta	shower 23	Brussels	fair 19	Delhi	sun 40	Hong Kong	fair 32	Miami	fair 31	Stockholm	fair 16
B. Aires	cloudy 14	Budapest	rain 15	Dubai	sun 38	Honolulu	sun 30	Milan	fair 24	Strasbourg	sun 19
B.ham	sun 20	C.hegen	fair 15	Dublin	sun 20	Istanbul	fair 21	Montreal	fair 19	Sydney	fair 21
Bangkok	shower 36	Cairo	sun 32	Dubrovnik	shower 22	Jakarta	fair 32	Moscow	cloudy 13	Tangier	fair 24
Barcelona	sun 25	Cape Town	fair 16	Edinburgh	fair 21	Jersey	sun 18	Munich	fair 18	Tel Aviv	fair 27
						Karachi	fair 36	Nairobi	fair 25	Tokyo	fair 25
						Kuwait	sun 42	Naples	sun 25	Toronto	fair 21
						L. Angeles	sun 29	Nassau	fair 31	Vancouver	cloudy 19
						Las Palmas	fair 24	New York	sun 22	Venice	fair 22
						Lima	cloudy 25	Nice	sun 26	Vienna	shower 13
						Lisbon	thund 24	Nicosia	fair 32	Warsaw	rain 17
						London	sun 23	Oslo	fair 16	Washington	sun 23
						Lux.bourg	sun 17	Paris	sun 22	Wellington	shower 12
						Lyon	sun 24	Perth	fair 20	Winnipeg	fair 23
						Madeira	fair 21	Prague	rain 13	Zurich	sun 18

No global airline has a younger fleet.
Lufthansa



Preventing pollution of 200 different products is critical for Gamatex NV, one of Europe's leading chemical, gas and oil storage companies. That's why they've switched to John Crane 2800E seals on pumps transferring gases from nine huge spheres – total capacity 22,000 cubic metres – to transport tanks.

To prevent emissions during transfer, previous seals relied on a barrier of liquid glycol. Never wholly effective, the glycol could be sucked away if a vacuum occurred, destroying the seal completely. The John Crane system's nitrogen barrier eliminates pollution, guarantees zero-emission transfer and keeps the gases on tap at Gamatex safe from foreign agents.

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FINANCIAL TIMES
COMPANIES & MARKETS
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YOUNG WORKING TOWN SEEKS LIVELY INTELLIGENT COMPANY.
For full details including photos, phone: 01952 293262
Telford.

IN BRIEF

Nissan returns to profitability

Nissan Motor, Japan's second-largest carmaker, moved into the black for the first time in five years, helped by the yen's weakness and wide-ranging rationalisation. The group reported pre-tax recurring profits of Y140.7bn ($1.2bn), against a Y53.4bn loss a year earlier. Page 20

Lonrho to continue merger talks
Lonrho, the UK conglomerate, has decided to continue merger talks with JCI, the South African mining house, but the two are far from hammering out a common position on price or the value of assets. Page 23

Thyssen reports strong six months
Thyssen, the German industrial group which was the target of an aborted takeover bid earlier this year, has reported pre-tax profits of DM631m ($368m) in the six months to March, up from DM349m. Page 18

Kenyan drought drives up tea prices
Severe drought in Kenya has slashed its tea crop by almost 40 per cent in the first three months of 1997. At London auctions for medium-quality tea, prices have risen by more than 30 per cent to £1.47 a kilo. Page 26

Deutsche Bank opens office in Zagreb
Deutsche Bank, Germany's biggest, has forged one of its strongest links yet with the former Yugoslavia by opening an office in the Croatia capital of Zagreb. Page 18

AssiDomän agrees Czech paper deal
AssiDomän, the Swedish forestry group, has reached agreement to take control of Sepap, the Czech pulp and paper company. Assi said it was paying $130m for 51 per cent of Sepap, raising its stake to 90 per cent. Page 21

Bank of Montreal profits up 12%
Canada's Bank of Montreal has posted a 12 per cent rise in net earnings, spurred by the accelerating domestic economy and gains from sales of developing countries' bonds. Page 19

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Degussa	84.15	+	2.25	Axa	369.20	+	5.20
Kali & Salz	169.50	+	6.70	Ch Dior	891	+	26
Lintra AG	184	+	6	Dassault Sys	371	+	18
Rheinmetall	390	+	12	Sidel	397	+	13
SGL Carbon	249	+	6.50	Falls			
Falls				Bert. Faure	280	–	7.70
PWA	297	–	4	SILIC	868	–	19
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Byte Indl	44	+	4½	Yamamoto	374	+	29
Gateway 2000	74⅛	+	5⅛	Nurama Mand.	4470	+	370
Micron Tech	42⅞	+	4	Falls			
SGS-Thomson	87⅛	+	6⅛	Cosmo Oil	560	–	12
Vishay Intnr	30⅞	+	2⅛	Daikyo	421	–	22
Falls				Fuji Film	4540	–	100
Alcatel Als	23⅝	–	1¼	Toyota	3510	–	80
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				Rises			
Dalgety	79½	+	11	Henderson Inv	8.85	+	0.15
Hardy & Sons	131	+	15½	Kowloon Mot	16.05	+	0.15
Waterford Fds	120	+	25	Falls			
Falls				Amoy Props	8.90	–	0.15
BTR	209	–	8	CDL Hotels	3.30	–	0.10
SEC	149	–	8¼	New Asia A	27.90	–	0.25
Sheffield Utd	45	–	20	Shaw Bros	8.25	–	0.15
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				Rises			
Centurion En	1.83	+	0.95	Advance Svc	24.00	+	2.00
Mytec Tech	4.85	+	0.60	Precious Ship	46.00	+	4.00
Newmex Mining	1.75	+	0.45	Thai Wire	26.00	+	2.50
Oil Canada Inv	5.50	+	0.85	Falls			
Saturn Mins	1.65	+	0.45	Intl Eng	22.75	–	2.25
Falls				Thai Danu Bk	41.00	–	5.00
Alaris Bio	10.50	–	0.50	Yongthai Chem	21.25	–	2.25

New York & Toronto prices at 12.30

Opposition within toymaker scuppers plan for Y490bn link-up

Sega, Bandai call off merger

By Michiyo Nakamoto in Tokyo

Sega, the Japanese video game maker, and Bandai, Japan's largest toymaker and developer of the Tamagotchi virtual pet, called off their merger yesterday just a day before the agreement was to be signed, because of strong opposition within the Bandai group.

The two companies, which had planned to merge in October, said they had dropped the plan because of "internal reasons within Bandai" but that they would form a number of business alliances. The collapse of the Y490bn ($4.2bn) merger – which was touted as the creation of a Japanese Disney – highlights the resistance to corporate consolidation within Japanese companies.

Mr Hironobu Sawake, industry analyst at Nikko Research Center in Tokyo, said Bandai's continuing independence would enable it to retain its unique corporate culture, which is the source of its hit products.

The success of Bandai's Tamagotchi, the pocket-sized egg with a virtual chicken which has sold more than 1.35m since its launch in November, means the arguments for Sega absorbing the company are less compelling, say Bandai employees.

In March Bandai announced a five-fold increase in monthly production of the toy to keep up with demand.

Opposition to the merger, which was announced in January, had been growing – particularly among mid-level managers within Bandai, the smaller of the two companies. They were concerned about the loss of Bandai's corporate identity as well as job cuts.

Employees at Bandai recently presented the management with a petition to call off the merger because the benefits were not clear.

However, Bandai had publicly insisted that the opposition was restricted to a group of disgruntled employees and that the merger would go ahead as planned.

At an extraordinary board meeting on Monday the Bandai board had approved the plan. But yesterday it emerged that opposition within Bandai was too strong to overcome.

Mr Makoto Yamashina, president of Bandai, who was scheduled to become the president of the merged group, admitted that he had been unable to convince employees of the benefits.

The two companies will instead form alliances combining Sega's games with Bandai's characters, which include Power Rangers, for video games and the development of multimedia products.

EMI to rationalise record labels

Artists to be dropped and executive jobs to go in N American cost cutting

By Alice Rawsthorn in London

EMI Group of the UK, one of the world's largest music companies, yesterday announced plans to rationalise its North American record labels and to return some £520m ($842.4m) of capital to investors in a share buy-back.

The cost cutting, which will include shedding 35 senior executives and dropping an unknown number of artists, will be orchestrated by Mr Ken Berry, head of EMI'a Virgin label, who has been promoted to the new role of president of international recording interests.

EMI also reported a 3.6 per cent increase in profits before tax and exceptional items to £380.5m for the financial year to March 31, against pro-forma profits of £367.3m in the previous year.

Sir Colin Southgate, chairman, said the group was hampered by the strong pound and "slow growth" in global sales – in apite of several big albums such as the Spice Girls' debut, which sold 11.5m copies worldwide, George Michael's *Older* and the *Romeo & Juliet* soundtrack.

He said he expected trading conditions to remain "sobdued" this year and predicted "modest" profits growth. New albums are due from Janet Jackson, the Rolling Stones, Radiohead and Yanni.

EMI's shares, which have declined recently as speculation over a takeover bid has diminished, slipped by 48p yesterday to £11.72¼.

The shares had peaked at £14.85 last August, following the demerger of EMI and the Thorn rental businesses. Details of the share buy-back will be unveiled before EMI's annual general meeting on July 18. The board envisages a tax-efficient issue of redeemable shares, similar to those proposed by the Grand Metropolitan and Guinness drinks groups.

The rationalisation programme, which will involve closing the EMI Capitol head office in New York and several smaller offices, is intended to reduce annual overheads by between £35m and £40m.

The cost of the exercise, including substantial pay-offs for executives and projected bad debts if more North American record retailers file for bankruptcy protection, is expressed as an exceptional item of £117.2m. Half the projected cost savings should materialise this year, according to Sir Colin, with the remainder coming through next year.

The chairman said he hoped the rationalisation would raise EMI's operating margins in the US from 5 per cent to 10 per cent over the next three years.

The weak performance of the US labels contributed to a fall in group turnover to £3.39bn (£3.52bn) last year, and a decline in operating profits before exceptional items to £399.5m (£387.8m). The board proposes to raise the dividend to 30p (27p) a ahare.

Lex, Page 16;
Battle to raise US margins, Page 23

From girl power to world power: the Spice Girls sold 11.5m copies of their debut recording, but not enough to prevent cuts at EMI

Thailand's Alphatec in danger of $80m default

By Ted Bardacke in Bangkok

Alphatec Electronics, the Thai computer chip manufacturer, yesterday warned it was in danger of defaulting on nearly $80m in obligations to international creditors due next month. The Thai cabinet has set up a high-level committee to explore ways of bailing out one of the country's flagship exporters.

Alphatec has a June 22 put option on a $45m convertible debenture issued in 1994 on European bond markets. With the bond, underwritten by Bankers Trust, trading at a deep discount to face value, most investors are expected to exercise the option. But Alpbatec must elso repay about $34m to a syndicate of international banks, led by ING Bank.

Tbe unlisted Alphatec Group, parent company of Alpbatec Electronics, was stung this month when Texas Instruments pulled out of two silicon chip manufacturing projecta worth $1.4bn, citing the group's inability to finance its portion of the greenfield ventures. Submicron, a silicon chip project, is also languisbing because of a lack of equity and debt financing.

Alphatec Electronics, which accounts for almost 1 per cent of Thailand's total exports, had been thought to be immune from the shake-out at Submicron and the joint ventures with Texas Instruments.

"Alphatec Electronics badly needs belp," said Mr Leslie Merszei, chief financial officer of the Alphatec Group. "This is the flagship company of the group and has the most exposure to the international financial community. The potential repercussions of a collapse at Alphatec are unthinkable."

This year, Somprasong Land, the property developer, became the first Thai company to default on a eurobond. International banks have reduced or cancelled credit lines to Thai companies, while the eurobond market has become prohibitively expensive. Thai companies are the second most active issuers on the eurobond market in Asia, after Korea.

A government spokesman said the cabinet committee "would have to move real fast because this sector is a very big exporter".

Banco Santander agrees $594m Argentine purchase

By David White in Madrid

Spain's Banco Santander has agreed to pay $594m for a controlling stake in Argentina's Banco Río de la Plata, giving it a leading position among the country's private sector banks.

The move, the biggest singla investment by a Spanish bank in Latin America, marks a decisiva turn in Banco Santander's race with Banco Bilbao Vizcaya for dominance in the region's banking sector.

It follows BBV's bid this month for leadership in Argentina through the acquisition by its affiliate, Banco Francés, of a majority stake in Banco de Crédito Argentino.

Banco Santander said it planned to merge Banco Río de la Plata with its axisting Argentine operations to form a bank larger than BBV'a, with assets of more than $10bn.

Banco Santander controls nine commercial banks in Latin America and seven investment banks, with a total of 1,270 branches and 39,500 employees. The Argentine move is its fifth in the region in saven months, following acquisitions in Mexico, Colombia, Venezuela and Brazil.

The deal continues a rapid build-up of Spanish banking interests in Argentina, where Banco Central Hispano is represented through Banco Tornquist, which is controlled via a Chilean joint venture, and BBV through its 30 per cent stake in Banco Francés, bought for $375m last October.

The agreement between Banco Santander and Banco Río de la Plata, covering just over 35 per cent of the shares with an option on a further 15 per cent, gives Banco Santander a majority of voting rights. The deal was struck with businessman Mr Gregorio Pérez Companc, who will receive a 6 per cent stake in Santander's operations in Chile, its main Latin American stronghold.

The acquisition, which is awaiting approval by regulators, raises the book value of Banco Santander's investments in the region to $3.14bn. The Spanish group said it expectad the acquisition to bring an initial dilution of earnings, but added that this should be overcome in the course of the second year.

It said the Argentine bank had a 3 per cent ratio of non-performing loans, and that these were 105 per cent covered by provisions. In the year to last Juna, it showed a net profit of $90.3m, and boosted this to $108.5m in the first nine months of this year.

Irish dairy groups back merger

By John Murray Brown in Dublin

The boards of the Avonmore and Waterford dairy companies have agreed to merge, creating the largest milk company in Ireland and the UK, and the third-largest in tha European Union.

Avonmore's first approach was rejected in April, with Waterford officials accusing it of "predatory and opportunistic tactics", coming in the waka of a profits warning which triggered a 20 per cent drop in the share price.

The announcement yesterday at a joint press conference followed approval from the boards of Waterford Foods plc and the 5,000-strong Waterford farmers co-operative, which owns 67 per cent of the public company.

The deal still has to be approved by 75 per cent of the Waterford co-op at two extraordinary general meetings.

It would mark a significant consolidation in the Irish dairy market, where 40 processors are chasing a milk pool of 1bn gallons a year.

The offer is based on 29 Avonmore shares for every 50 Waterford.

At Avonmore's closing price of I£2.51 yesterday, the offer values Waterford's ordinary share capital at I£272m. The offer would be equivalent to I£1.45 for every Waterford share, which is a premium of 16 per cent over the closing price yesterday of I£1.25.

With the redemption of Waterford's preference shareholders, the total offer is worth I£343m.

In addition, to woo Waterford farmer shareholders, Avonmore would pay abont I£11m in milk price bonuses over the next three years.

Mr John Dowley, Waterford's chairman, said the merger served the interests of farmer shareholders and their families and was "the basis of a partnersbip . . . which has the capacity to grow into a significant international food company".

This announcement appears as a matter of record only. All shares have been sold May 1997

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Bankgesellschaft Berlin Aktiengesellschaft
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International

Credit Suisse First Boston Deutsche Morgan Grenfell Dresdner Kleinwort Benson

Salomon Brothers International Limited

ABN AMRO Rothschild HSBC Investment Banking Paribas

Metro scrip issue to double capital

By Peter Norman in Cologne

Metro, the German cash-and-carry retailer, yesterday said it would reach into its reserves to fund a scrip share issue that would more than double its capital. The announcement came as it forecast a big increase in pre-tax profits for 1997.

The company, which was formed last year through the merger of the cash-and-carry, department store and supermarket interests of the Metro, Kaufhof and Asko groups, said 1996 pre-tax profits from normal operations were DM1.06bn ($627m), within the DM1bnDM1.1bn range forecast in October.

Net profit in the group's first year of operations was also as forecast, at DM717m. After adjusting for acquisitions and disposal, turnover rose 1.8 per cent to DM52bn.

Mr Klaus Wiegandt, chief executive, said the group planned to increase its capital from DM501.2m to DM1.2bn through the issue of seven new DM5 nominal shares for every five held. The capital increase would be financed from reserves, with the new shares qualifying for a full 1997 dividend.

The move is aimed at making the shares more liquid and expanding capital to reflect more closely the size of the merged company.

The company yesterday said shareholders could hope for a dividend of at least DM2 per DM5 nominal share for 1997. It proposed a dividend of DM2 plus a DM2 bonus for last year on ordinary capital with a nominal value of DM453.3m. Non-voting preference shares, which account for DM47.9m of the gronp's capital, qualify for a DM2.25 dividend plus a DM2 bonus.

Metro shares advanced strongly on yesterday's news, closing at DM184.40, up DM6.90. Ms Jadwiga Bobrowska, a retail analyst with WestLB Research in Düsseldorf, said the gains reflected the group's ability to meet its targets and the promise of further restructuring.

Mr Wiegandt said the group reduced its net indebtedness from DM1.23bn on January 1 1996 to DM770m at the end of last year. In the current business year, he forecast synergy gains of DM131m from last year's merger. However, these would be offset by start-up costs of DM100m associated with the group's international expansion.

Metro will invest increasingly in fast-growing markets abroad, reflecting its belief that consumer demand in Germany and other western European markets will stagnate for 10 to 15 years.

Mr Wiegandt said Metro was setting "three new country priorities: Poland, Turkey and China". Of investments totalling DM1.8bn this year, DM673m will be made abroad, including DM500m in the former communist countries of eastern Europe and DM60m in China.

Mr Wiegandt said the sale this month of Möbel Unger, a loss making furniture retailer, and the purchase of the Peacock computer supplier marked the end of strategic acquisitions and disposals for the foreseeable future.

However, he expressed an interest in acquiring German retailer AVA if Edeka, another retail group and AVA's main shareholder, wanted to sell.

Metro said first-quarter turnover rose 2.4 per cent, from DM14.53bn to an unadjusted DM14.89bn.

Top marque for Jürgen Schrempp

The Daimler-Benz chief will tell the AGM of almost unprecedented progress in motor vehicles and can promise even more to come

Mr Jürgen Schrempp, chairman of Daimler-Benz, is on a roll. Last week, he extolled the group's achievements to 5,000 guests as he opened its new US car plant. The numbers at today's annual meeting may be lower, but the message will be the same.

The chairman will report a year of almost unprecedented progress in motor vehicles – the group's main business – and the promise of more to come.

Sales of passenger cars – the main activity of the Mercedes-Benz vehicle subsidiary – rose 7 per cent to 319,000 in the first four months of 1997. Buoyed by a richer mix of more expensive products, turnover climbed 12.6 per cent to DM16.5bn ($9.8bn).

Already, the signs are 1997 could be a bumper year, building on group net profits of DM2.76bn and sales of DM106.3bn in 1996.

Growth has come through new cars and new markets. In recent months, Mercedes-Benz has probably introduced more vehicles than at any time since Gottlieb Daimler and Karl Benz separately invented the motor car in 1886. Such innovation is key to its ambitions to raise sales from 600,000 to 1m by 2000, says Mr Schrempp.

The SLK convertible, introduced in mid-1996, has become an instant classic. Customers have to wait almost two years for it, prompting fat premiums for the lucky ones who were first in the queue.

Early sales of the CLK, a bigger coupe, also look promising. The curvaceous car marks a clear improvement on the dowdy mid-sized models Mercedes-Benz made in the recent past and should challenge BMW in the premium coupe sector.

Last week came the third newcomer – the M Class sports utility vehicle – which takes the group into one of the fastest growing sectors of the market.

US sales will start this autumn, but European buyers will have to wait until early 1998 to get behind the wheel.

Product renewal will gather pace in October, when Mercedes-Benz will make its biggest leap into the dark with the A Class compact car. The vehicle is smaller than a Ford Fiesta and, at DM30,360, costs little more than a Volkswagen Golf.

Mr Schrempp also predicts growth from new markets. US sales, up sharply due to its more attractive models and keener pricing, should rise further this year because of the M Class.

The group is also expanding in South America, where a new $400m plant with capacity for 70,000 A Class cars a year should be ready by December 1998. It is also examining the possibility of selling the car in Asia, where it may build some models, says Mr Schrempp.

Even trucks and buses are looking up in both the US and Europe. Freightliner, the US heavy trucks subsidiary, has consolidated its market leadership with its planned acquisition of Ford's heavy truck side. Earnings in the first quarter of this year are ahead of the entire second half of 1996, says Mr Jim Hebe, chief executive.

In Europe, where the trucks and buses business has traditionally lost money, the Actros heavy truck, unveiled last September, is helping restore its commanding market share and battered profits, says Mr Schrempp. A new medium/lightweight truck range due before the end of the year will complete the product renewal programme.

Buses are also doing better. Mr Schrempp admits: "We have been making losses in buses in Europe for 20 years." But 1997 should bring "a stable breakeven".

There are still some clouds on Mr Schrempp's horizon. The much-vaunted plan to build multi-purpose "people carriers" in China has run aground on constantly changing Chinese negotiating tactics.

Then there is the Smart. The court is still out on the small two-seater developed with SMH, the Swiss watches group. With a base price of DM16,000, the Smart hopes to create a niche in private transport. Mr Schrempp is cautious in predicting its success. But even were the DM1.5bn venture to flop, Mercedes-Benz can take it on the chin, he suggests.

With the A Class almost ready, the Smart is the top priority for Mercedes-Benz management. "We're all concentrating on it – in the best sense of the word", he says.

Haig Simonian

Jürgen Schrempp: innovation in design is key to raising sales from 600,000 to 1m by 2000

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Deutsche Bank Luxembourg S.A.
May 1997

Disposals help to lift Thyssen

By Ralph Atkins in Bonn

Thyssen, the German industrial group which was the target of an aborted hostile takeover bid this year, yesterday reported pre-tax profits of DM631m ($373m) in the six months to March, against DM349m in the same period a year before.

The rise was largely because of the one-off effects of disposals, including a majority stake in RKW, a building products company. But after discounting non-recurring factors, Thyssen reported a 22 per cent improvement, with all its business groups making profits.

The figures were better than expected and analysts are looking for further benefits to feed through in the second half from a deal to set up a joint flat steel business with Krupp, a rival steel and engineering group. Thysseo's shares closed op DM5.50 at DM399.

The flat steel merger follows Krupp's hostile bid for Thyssen in March, which was dropped after political intervention.

Mr Terence Sinclair, analyst at Salomon Brothers, described the underlying profits performance in the first half as "very respectable", given thet steel prices had been falling during the period.

Thyssen said trading conditinns had "brightened" although the economic upswing in Germany remained sluggish.

Sales in the first half of DM17.9bn were 3 per cent lower than a year before, but after adjusting for disposals and operations earmarked for sale, they were up 2 per cent.

The Düsseldorf-based group said it hoped for a "perceptible" revival in business in the second half. It expected the steel business to end the year with a "clear profit" and overall net income to exceed the 1995-96 level.

Thyssen is concentrating on "high-growth businesses" – inclnding escalators and elevators and aotomotive parts as well as flat steel.

After scaling back its telecommunications ambitions, Thyssen is expected to sell its 30.1 per cent stake in E-Plus, the digital mobile telephone network, but has yet to strike a deal.

Deutsche Bank opens in Zagreb

By Graham Bowley in Zagreb

Deutsche Bank, Germany's biggest, yesterday marked the latest push by German banks into central and eastern Europe by opening an office in Croatia.

The representative office in Zagreb – Deutsche Bank's first in the former Yugoslavia – is a sign of growing confidence in Croatia among Western banks and industry.

Mr Michael Endres, Deutsche Bank board member, said the office would be upgraded to a full subsidiary "within the foreseeable future".

"We only open representation when we are confident that the country has the potential for growth and that we can move our activities there in full," he said.

German banks are competing aggressively for business in the former communist countries. Deutsche Bank and others, such as Commerzbank, have established commercial banking operations in Poland, Hungary and the Czech Republic, partly to support expansion by their clients in German industry into the new markets.

The banks are also keen to develop into investment banking in order to take edvantage of privatisations and the development of capital markets.

The Croatian government is pressing ahead with the privatisation of INA, the country's biggest oil and gas company, which it hopes will include a listing on the London Stock Exchange. International banks are competing for the mandate to arrange the sale.

Deutsche'e move comes as Dresdner Bank and BNP, of France, have announced plans for a new joint venture in Croatia. Commerzbank has also signalled its intention to set up operations in Zagreb.

In a further eastward move, Deutsche Bank plans early next year to expand its operations in Russia with a new office in Moscow employing 100 staff. Mr Endres said the bank was also looking at establishing offices in Romania and Bulgaria.

Welcoming the move, Mr Borislav Skegro, Croatian deputy prime minister responsible for the economy, said that increased competition would boost the domestic banking system, reducing interest rates and encouraging a more orderly development of the financial system.

"Foreign banks bring us general know-how and good sound banking practice that many of our banks still lack," he said.

Banks from countries such as Austria, France and Italy already have offices in Croatia, but Deutsche, along with Dresdner, are the first of the big German banks to open offices there. Along with Italy, Germany is Croatia's largest trading partner.

German banks are optimistic about Croatia because of the potential of its tourist industry, which according to some estimates, generated about $2bn in revenues last year.

Croatia survey, separate section

EUROPEAN NEWS DIGEST

Barry Callebaut plans offering

Barry Callebaut, the leading cocoa and chocolate company owned by Klaus J. Jacobs Holding of Switzerland, is to seek outside capital with an initial public offering next year. Mr Klaus Jacobs, the Swiss financier who chairs the company, said in London yesterday the synergies from last year's acquisition by his Zurich-based Callebaut of Barry, the French cocoa group, should begin to show through in 1998.

A public offering of 10-20 per cent, aimed particularly at attracting investors in the food industry, would enable the company, estimated to have a stock market value of at least SFr600m ($426m), to press on with plans for growth in emerging markets and possibly through further acquisitions. Mr Jacobs said plans for an IPO had been delayed by monopoly issues arising from the merger last July. The company yesterday announced it was selling Beldek, a Belgian producer, to comply with conditions set down by the national competition authorities.

The merged company, unveiling itself for the first time yesterday, said it was competing head-on with large groups such as Nestlé and Cadbury in Europe, and Cargill and Archer Daniels Midland in the US. It is the world's biggest cocoa bean grinder, with ADM, Cargill and Nestlé close behind. Barry Callebaut is the second biggest supplier of chocolate and coatings, with an 8 per cent market share against Nestlé's 11 per cent.

The combined company made an operating profit of SFr81.8m on sales of SFr1.05bn in the first half to the end of February. *Alison Maitland, London*

Polish group set to win bank

A group of Polish financial institutions led by the Polish Development Bank (PBR) has emerged as front-runner in the contest for the state-owned Powszechny Bank Kredytowy. It takes the place of Citibank, of the US, which had expressed interest in the Warsaw-based commercial bank but later withdrew.

The treasury, which is expected to make a decision in the next three weeks, is likely to reject the only other bid, from Samsung Finance. With parliamentary elections due later this year, the government wants to avoid criticism that too much of Poland's financial sector is being sold to foreigners. It is thought that Citibank declined to make an offer for PBK – despite having conducted due diligence – because it sensed growing sensitivity about foreign bidders for state assets.

The local group is made up of Bank Przemyslowo Handlowy, a commercial bank based in Krakow; Warta, the insurer; Kredyt Bank, an acquisitive private bank; and PBR, an investment bank. The group is bidding for a 51 per cent stake in the PBK, with the European Bank for Reconstruction and Development ready to buy the remaining 14 per cent for sale. A further 15 per cent of PBK will be offered in a public share offering in the autumn. *Christopher Bobinski, Warsaw*

Deutsche Telekom forms link

Deutsche Telekom, Europe's largest telecoms group, last night announced it had struck its first "interconnection" agreement with a rival telecoms operator. The deal with Worldcom Telecommunications Services will allow the linking of telecoms networks – an important precondition if markets are to be open to competition.

Germany's telecoms market will be fully liberalised from next January, but Deutsche Telekom has been criticised by other would-be rivals for exploiting unfairly its dominant market position. Mr Herbert May, Deutsche Telekom board member, described the Worldcom deal as an "important signal" for negotiations with other competitors. Interconnection allows rivals to use Deutsche Telekom networks for the "last mile" link into customers' homes or businesses. *Ralph Atkins, Bonn*

Koor income hit by slow sales

Koor Industries, Israel's biggest industrial holding company, yesterday blamed lower sales in domestic telecommunications for a 4 per cent fall in first-quarter net income to Shk205m ($60.34m). Revenues fell 3 per cent to Shk3.09bn over the period. Earnings per share declined from Shk14.008 last year to Shk13.5.

Mr Benjamin Gaon, chief executive, blamed a number of factors, including a "significant slowdown" in the Israeli economy. Analysts said sales and profits were mainly dragged down by an expected decline in domestic sales by Tadiran and Telrad, Koor's telecoms subsidiaries, to Bezeq, the state-owned telecommunications company. These sales fell nearly 56 per cent, from Shk514m in the first three months last year to Shk227m this year. A 17 per cent increase in exports from Makhteshim-Agan, Koor's agrochemicals group, helped boost total exports 20 per cent in the quarter, from $320m in 1996 to $383m this year. *Avi Machlis Jerusalem*

Clal Israel tumbles 65%

Clal Israel, the country's second-largest industrial conglomerate, said yesterday net profits plunged 65 per cent in the first quarter of 1997, as its electronics and communications subsidiaries continued to report losses. Revennes in the quarter were down 10 per cent from Shk1.45bn to Shk1.31bn ($385m). But profits nosedived from Shk67m in the first three months of 1996 to Shk23m this time. Earlier this week, Clal Industries, the company'e industrial holding arm, reported a 59 per cent drop in profits for the quarter. *Avi Machlis*

Brewpole plans Polish sale

Brewpole, which is owned by a group of private Australian investors, is looking to sell its $200m holding in Elbrewery and Hevelius, two Polish companies which own three breweries in northern Poland and control 16 per cent of the domestic market. Brewpole's operation is the second largest in Poland. The Australian group is partnered by Grolsch, the Dutch brewing group which bought e 25 per cent stake in Brewpole in 1995. *Christopher Bobinski*

AMERICAS NEWS DIGEST

Bank of Montreal rises 12% in term

Bank of Montreal opened the second-quarter reporting season for Canadian banks yesterday by reporting a 12 per cent rise in net earnings. The improvement was spurred by the accelerating domestic economy and gains from sales of Third World bonds. BMO's minority stake in Mexico's Bancomer group, acquired last year, contributed 5 per cent of earnings.

Net income grew to C$314m (US$228m), or C$1.11 a share, in the three months to April 30, from C$281m, or 98 cents, a year earlier. Return on equity was little changed at 17.4 per cent, but return on assets dipped from 0.74 per cent to 0.68 per cent.

Assets soared 29 per cent to C$200.4bn on April 30, with strong growth in mortgage and small business loans. Harris Bank, BMO's Chicago-based subsidiary, also reported a sizeable advance in personal and commercial lending. Loan loss provisions charged to income were unchanged at C$69m. But net impaired loans, comprising non-performing loans minus the loss provision, fell by C$717m to zero.

Canada's strong business recovery accompanied by low interest rates have made domestic bank shares a favourite among investors over the past 18 months. Their advance has far exceeded most analysts' projections.

BMO shares were down 75 cents at C$54.30 at midday in Toronto yesterday, in line with other bank stocks. The shares were trading at C$31 at the start of 1996.

Bernard Simon, Toronto

Scotiabank helped by sell-offs

Gains from the sale of non-core businesses and strong retail brokerage and mutual fund fees helped lift Bank of Nova Scotia's second-quarter earnings by 14 per cent, in spite of a sharp rise in loan-loss provisions.

Net earnings rose to C$300m (US$218m), or C$1.16 a share, in the three months to April 30, from C$262m, or C$1.01, a year earlier. The latest figures include C$118m in pre-tax gains from the sale of the bank's pension and institutional custody businesses, the majority of its dealer financial services portfolio, and a stake in an investment management company

Return on equity rose from 16.1 per cent to 16.7 per cent, and return on assets edged up from 0.68 per cent to 0.70 per cent.

Loan loss provisions charged to income almost trebled from C$95m to C$264m. The increase reflects a C$175m rise in general reserves to C$500m which the bank said was in line with its approach "of maintaining a prudent level of provisions".

Assets of Canada's fourth-biggest and most geographically diverse bank stood at C$176.1bn on April 30, up from C$158.3bn a year earlier.

Scotiabank has bought stakes in several financial institutions in emerging markets including, most recently, a 25 per cent interest in Peru's Banco Sudamericano

Mr Peter Godsoe, chairman, said the bank planned to continue broadening its international reach "by exploring additional joint venture opportunities in the growing markets of Asia and Latin America". *Bernard Simon*

One-off gains lift Hollinger

Hollinger, the international publishing group, trebled first-quarter operating profits, helped by stronger advertising, lower newsprint prices and an increased stake in Canada's Southam newspaper chain.

Net earnings climbed to C$157.4m (US$114m), or C$2.73 a share, in the three months to March 31, from C$6.5m, or 5 cents a share, a year earlier. The latest figures include C$143.7m, or C$2.54 a share, in one-time gains, stemming mostly from the sale of Canadian papers to Hollinger International, Hollinger's US-based investment holding company, and a gain from the sale of a 24 per cent stake in Australia's John Fairfax group. Unusual gains totalled C$13.7m, or 25 cents a share, in 1996.

Results of 50.5 per cent-owned Southam, previously equity accounted, have been consolidated in the first quarter of 1997. Hollinger recently made a C$923m cash and shares offer to buy out Southam minorities. Mr Conrad Black, chairman, told the annual meeting yesterday that Hollinger might be willing to raise the cash component of the bid, but not the overall amount.

Operating profits climbed from C$32.1m to C$97.5m, with Canada accounting for the bulk of the increase. Hollinger, controlled by Mr Black, also owns the UK's Telegraph group, the Chicago Sun-Times, the Jerusalem Post, and a chain of several hundred small US papers.

Bernard Simon

Coca-Cola bottling move

Coca-Cola Enterprises plans to buy Coke Canada and Coke New York for a total of about US$1.66bn, and may issue debt to fund the transaction.

Coca-Cola's part-owned bottling arm will acquire the soft drinks group's 48 per cent interest in Coca-Cola Beverages (Coke Canada) and its 49 per cent interest in Coca-Cola Bottling of New York (Coke New York).

Coca-Cola Enterprises will pay Coca-Cola C$333.2m, or C$17 a share (about US$12.25 a share based on current exchange rates) for its 19.6m Coke Canada shares. It then plans to bid for the rest of Coke Canada, which is publicly-held, at C$19.50 a share.

The group also plans to buy the 47 per cent of Coke New York currently held by private investors. It already holds 4 per cent.

The transaction will be dilutive to earnings by 5 cents a share for the part of 1997 that it manages the operations, assuming the deal is financed by debt. It would also affect 1998 results by slightly more than 5 cents a share.

Coca-Cola Enterprises reported net income of 10 cents a share and 2 cents a share in the third and fourth quarters of 1996, respectively, after giving effect to a 3-for-1 stock split declared on May 1.

For the year ended December 31 1996, Coca-Cola Enterprises earned $114m, or 27 cents a post-split share before a gain, on revenues of $7.92bn.

A First Call survey of 17 analysts sees Coca-Cola Enterprises earning 18 cents a share in the 1997 third quarter and losing 2 cents a share in the fourth quarter. The analysts forecast net income of 33 cents a share for the year. A First Call survey of 16 analysts sees the company earning 47 cents a share in 1998.

AP-Dow Jones, Atlanta

BankBoston in $24.4m buy

BankBoston is to buy Pacific National, including its Pacific National Bank unit, for $24.4m in stock.

Pacific National Bank had $90m in deposits and a $90m loan portfolio, as of April 30, primarily comprised of residential real estate and commercial and construction real estate loans. The transaction is expected to close in October. BankBoston is a bank holding company with $64.8bn in assets as of March 31. *AP-Dow Jones, Boston*

PCA plans $150m ADS offer

Brazilian supermarket chain Companhia Brasileira de Distribuicao (PCA) plans to raise up to $150m by offering 6.5m American Depositary Shares, and the issue is expected to be priced late on Wednesday. The unofficial price talk is $20.13 per ADS, but sources said it would probably be offered at a slight discount. Each ADS represents 1,000 non-voting preferred shares of Brasileira de Distribuicao.

Of the total amount, some 3m shares will be offered to investors in the US, 1.75m will be placed internationally, and another 1.75m in Brazil. The company's preferred shares were trading up 0.01 at R21.81 on the São Paulo Stock Exchange. *AP-Dow Jones, New York*

Pepsi throws in the towel in S Africa

The dramatic collapse of PepsiCo's South African operation – which suspended trading this week and is due to be liquidated on July 23 – is a painful defeat for the US soft drinks retailer in a market dominated by its rival, Coca-Cola.

It is also an ignominious end for a project launched three years ago on a sea of publicity. Among the hundreds of international companies that have resumed trade with South Africa since the end of apartheid, none returned with such fanfare as PepsiCo.

Launched in Johannesburg in June 1994, New Age Beverages, Pepsi's local distributor, celebrated the brand's return with a promotional tour by Whitney Houston, its most famous shareholder. It was almost endorsed by President Nelson Mandela during his first state visit to the US in September that year.

Mr Mandela told whirring television cameras in Washington that he was delighted Pepsi had returned to South Africa – although he let it be known that he also drinks Coke.

In future the president will not have a choice. The brainchild of Mr Ian Wilson, en expatriate South African and former top executive at Coca-Cola, New Age Beverages has been squarely defeated by its bigger rival.

It is also a victim of Pepsi's recent change in strategy: the group has given np the vain attempt to defeat its bigger and more powerful rival in areas where Coca-Cola is already strong, and is concentrating instead on growth markets such as India and Asia.

From the outset, NAB set its sights on the black consumer market, which has a proven affinity for US brands. Mr Khahla Mthembu, a former political activist, was appointed chairman, and tha investment arms of trade unions representing mining and textile workers became minority shareholders.

Next to PepsiCo, with 25 per cent, its principal owners were black American celebrities, including Ms Houston and Shaquille O'Neal, the baeketball player.

The company selected a new advertising jingle, "the choice of a new generation", which sought to align Pepsi with the democratic transformation in South Africa following the all-race election in April 1994.

It was an ambitious strategy, which enjoyed some success. An unlisted company and secretive about its performance, NAB is reckoned by analysts to have won about 10 per cent of its target market in Soweto, the vast township outside Johannesburg.

After its first year's trading, Mr Mthembu claimed Pepsi had already achieved its four-year targets, and shareholders readily backed a plan to build a second bottling plant in a new regional market of KwaZulu Natal.

In retrospect, that expansion may have been a bid for survival. Coca-Cola commands an established chain of retailers across Africa, whose fridges are closed to rival products. To compete, Pepsi was forced to supply new display fridges to shops that in many instances could ill-afford the extra floorspace. The alternative was to pioneer new markets and distribution networks, particularly in rural areas such as KwaZulu Natal.

Whitney Houston: one of NAB's best-known investors

Although NAB was seeking a national presence, analysts now donbt whether sufficient capital was available to build one. NAB invested about R700m ($156.5m) to bring Pepsi back to South Africa, well below the estimated R1bn-R2bn minimum cost of a national distribution network.

In contrast with Coca-Cola, which with its local partners plans to invest R1bn to double the size of the Southern African beverages market within seven years, PepsiCo last year reported losses of $846m from international beverages.

NAB was finally toppled when its largest creditor, Standard Corporate and Merchant Bank, called in debts of R230m. "We have been in contact with them every day for the past 12 months," said Mr Miles Ruck, deputy managing director of Standard Corporate and Merchant Bank in Johannesburg, who consulted PepsiCo in London and New York before calling time. Standard Bank shares fell 6 per cent in Johannesburg on news of NAB's collapse.

Pepsi ruled out the prospect of further capital for NAB, and blamed its collapse on Coca-Cola. "It was David versus Goliath, a noble experiment, and we hoped the market would support it. But in the end sales did not justify the cost of the venture," he said.

The lesson for Pepsi is particularly painful. Although NAB sought to portray itself as a newcomer to South Africa, it was in fact Pepsi's fourth foray into the country since 1948 when – coincidentally – the National Party government began its 46-year term in office. All have failed.

In that time, Coca-Cola has tightened its grip on the market. The writing was on the wall three years ago, when Whitney Houston opened her tour with a pop concert at a stadium adorned with billboarde advertising Coca-Cola. Pepsi's bigger rival turned down e request to remove them, even for one night.

Mark Ashurst

Morgan means more to raising equity

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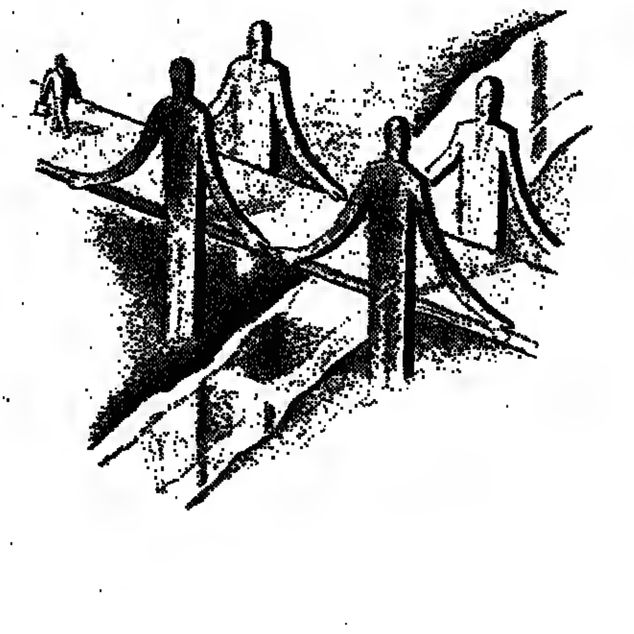

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Cost cuts help Nissan back to black

By Michiyo Nakamoto in Tokyo

Nissan Motor, Japan's second-largest carmaker, moved into the black for the first time in five years, helped by the yen's weakness and wide-ranging rationalisation.

The group reported pre-tax recurring profits of Y140.7bn ($1.2bn), compared with a loss of Y53.4bn the previous year. Net profits were Y77.7bn against a net loss of Y88.4bn.

Sales for the year climbed 10 per cent, from Y6,039.1bn to Y6,658.9bn.

Nissan attributed the better performance to a weaker yen and cost-cutting throughout the group. Cost reductions contributed Y70bn to operating profits, while the fall in the yen brought an additional Y90bn.

Fierce competition and a lack of popular models led to a decline in Nissan's vehicle sales in Japan; the group's share of the domestic market slipped 1.5 percentage points to 20.3 per cent.

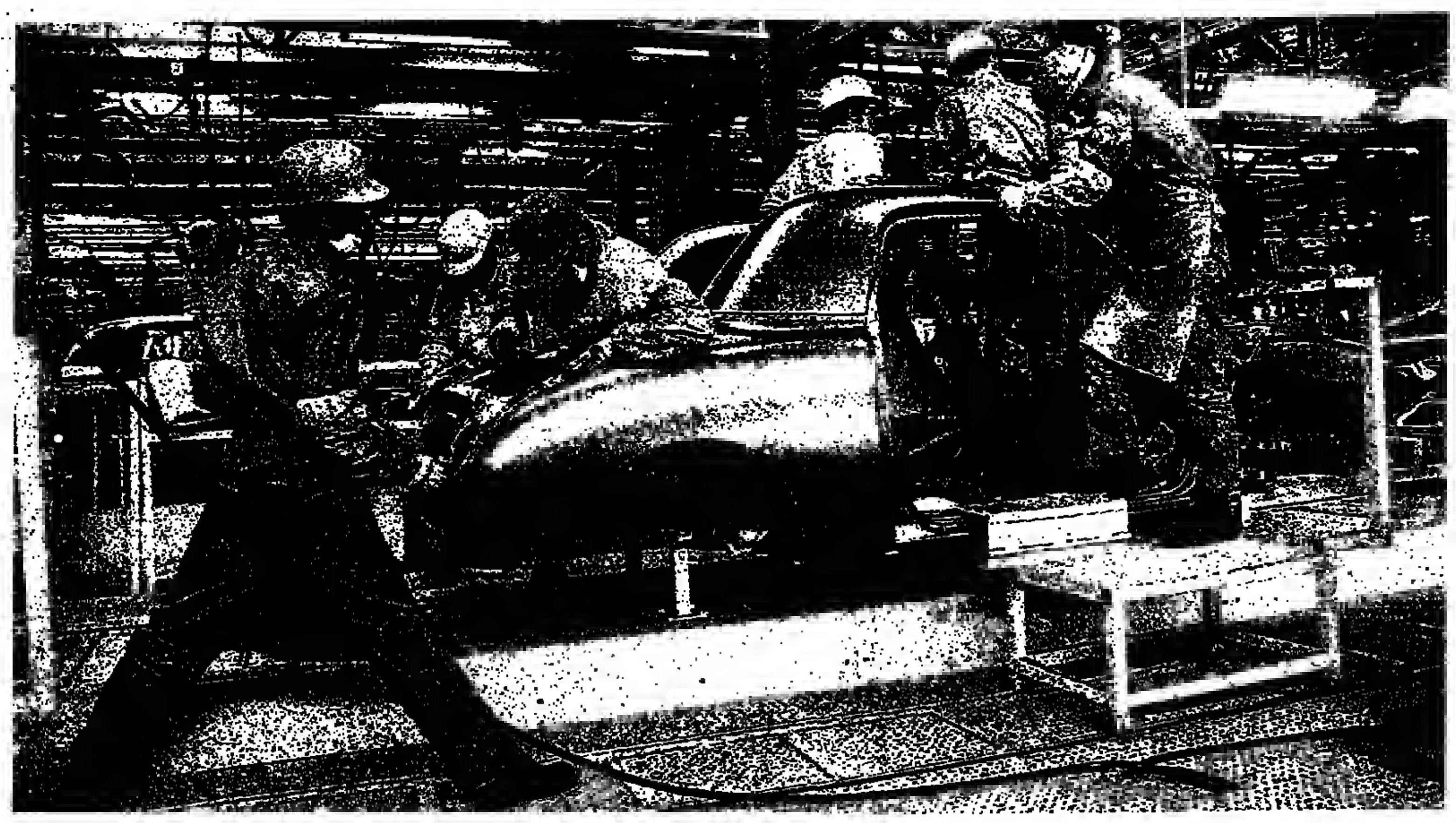
In contrast, Nissan enjoyed a 14 per cent increase in export sales, largely as a result of the yen's weakness.

Buoyant sales in the North American market led to operating profits of Y50bn in the North American business. Losses at its European operations were reduced from Y65bn to Y40bn, helped by cost-cutting.

Nissan also benefited from stable conditions in Mexico, where reduced inflation and a stabla exchange rate helped it lift operating profits by Y20bn.

The group is aiming for a significant increase in net profits this year, to more than Y100bn, helped by the improved results from both Europe and Mexico and by the launch of new models. These include a new Primera in Europe, seven new models in the Japanese market and many in the booming recreational vehicle segment.

Further restructuring efforts are also expected to help the company attain its goal.



Mike Stark

The production line at Nissan's Yokohama plant: the group aims to lift net profit above Y100bn this year with the help of seven new models in Japan

● Isuzu reported a decline in sales and profits as it was hit by a shift in the domestic market from large to medium-sized trucks and by the downturn in exports of small trucks to Asia and North America.

Parent company sales slipped 2 per cent, from Y1,222.2bn to Y1,194.8bn, while recurring profits fell 32 per cent, from Y38.9bn to Y26.3bn. Net profits plunged 77 per cent, from Y44.9bn to Y10.4bn.

Mitsubishi Electric lifts chip investment

Electronics companies forecast improvements after profits fall by up to 47%, writes Michiyo Nakamoto

Mitsubishi Electric, one of Japan's leading electronics companies, is to invest an additional Y10bn ($86m) in semiconductor manufacturing facilities this year.

The company said the investment, aimed at increasing production of non-memory products, was prompted by expectations that the market was set to improve.

Mitsubishi's decision to invest Y115bn in semiconductor facilities this year, contrasts with spending cuts by rival electronics companies, but follows NEC's decision to increase production of memory chips by 18 per cent this year.

The plan was revealed as the big electronics companies, including Mitsubishi, unveiled disappointing full-year profits as the sharp fall in semiconductor prices last year – some analysts estimate by as much as 70 per cent for some chips – wiped out the benefits of higher sales.

Group sales for Toshiba, one of the main notebook personal computer makers, rose 7 per cent to Y5,453.4bn, compared with Y5,120bn previously.

However, pre-tax profits declined 29 per cent from Y177.7bn to Y125.5bn, and net profits fell 26 per cent from Y90.4bn to Y67.1bn.

An 80 per cent increase in PC sales and a 15 per cent increase in sales of liquid crystal display panels failed to offset the decline in orders for heavy electrical equipment, the continuing downward pressure on mainline consumer electronics products such as televisions, and the fall in dynamic random access memory prices.

Fujitsu also saw sales rise by 20 per cent from Y3,761.9bn to a record Y4,503.5bn, reflecting the 37 per cent increase in communications systems sales.

However, a 3 per cent decline in operating profits took in the impact of the plunge in semiconductor prices.

Pre-tax profits rose 12 per cent from Y127.7bn to Y143.1bn, helped by lower charges, but net profits were 27 per cent down to Y46.1bn due in part to charges relating to inventory adjustments at Amdahl, its US subsidiary.

Mitsubishi Electric reported a 47 per cent drop in pre-tax profits in spite of a 6 per cent increase in sales. The disappointing performance was, like Toshiba, due in large part to price falls in the semiconductor and consumer electronics markets and a depressed market for heavy electrical machinery.

Group sales were Y3,735.1bn, compared with Y3,511.3bn last time, and pre-tax profits were down from Y128.4bn to Y67.9bn. Net profits slumped 86 per cent from Y59.2bn to Y8.5bn.

All the companies are forecasting better results in the current year on the basis that the environment for semiconductor prices will improve.

Toshiba is forecasting a 10 per cent rise in sales to Y6,000bn and 12 per cent in pre-tax profits to Y140bn. Net profits are expected to rise 12 per cent to Y75bn.

Meanwhile, Fujitsu expects that continuing strong demand for communications systems and information equipment will support a 19 per cent rise in group sales to Y5,350bn and a near donbling of net profits to Y90bn.

Mitsubishi forecasts a 5 per cent rise in sales to Y3,900bn, a 25 per cent increase in pre-tax profits to Y85bn, with net profits rising to Y20bn.

● Oki Electric, a leading maker of communication equipment, reported an 84 per cent drop in group recurring profits from Y50.3bn to Y7.9bn, and an 87 per cent plunge in net profits from Y24.7bn to Y3.2bn.

Sales slipped to Y732.2bn, compared with Y743.3bn last time, largely as a result of the sharp decline in semiconductor memory chip prices.

The company said it did not expect much of an improvement in the current year, forecasting recurring profit rising to Y11bn, but net profits falling to Y1bn.

Trading in Finance One shares to restart

By Ted Bardacke in Bangkok

Trading in the shares of Finance One, Thailand's largest finance company, will resume on Friday after a three-month suspension, stock exchange officials said yesterday.

The shares, which were last traded at Bt23.75, are expected to fall dramatically after the company failed to reach an agreement on a takeover by Thai Dann Bank, a small commercial bank.

Thailand's central bank denied reports that the company's net worth is now negative, but said Finance One would still need to carry out a capital-raising exercise worth Bt8.28bn ($324m) in order to maintain solvency.

The hank confirmed it would purchase most, if not all, of the new shares to be issned by Finance One within 30 days, prompting a likely change in the tronbled company's management team.

The company said the new issue might be even larger than the amount demanded by the central bank, as it needs to maintain the conversion ratios required by a $120m eurobond that the company has outstanding.

The central bank may be called in to purchase these shares as well, diluting the stakes of existing shareholders even further.

The government's move to prop up the company bas been criticised by analysts and the Thai media. They fear that the size of a taxpayer-backed bail-ont of the financial sector may grow as more finance companies are declared insolvent and are unahle or nnwilling to merge with healthy companies.

The central bank said that its policy of trying to engineer the consolidation of the sector throngh mergers and acquisitions remained intact in spite of the failure of the deal between Thai Dann and Finance One.

Last Friday, Thai Dann said that it could not complete the merger – described by Thai financial authorities as the model for cleaning up the country's ailing financial sector – because of problems in determining the valne of Finance One's assets and legal and tax implications.

ASIA-PACIFIC NEWS DIGEST

National Mutual ahead at midway

National Mutual, Australia's second-largest life assurance company and controlled by the French Axa-UAP group, yesterday posted an after-tax profit of A$176.5m (US$134.8m) for the six months to end-March, up from a restated A$131.5m in the first half of 1995-96. The company – which "demutualised" two years ago and listed last October – said strong investment markets had had "a significant impact" on the results, with total investment earnings from its various divisions contributing A$107.6m to the final result.

The National Mutual Life arm, the core Australian and New Zealand-based financial services group, made an after-tax profit of A$110.8m, up from A$105m a year earlier, with investment income increasing from A$57m to A$68m.

The group said retail sales increased 45 per cent, while withdrawals were "maintained at similar levels". Overall expenses were down 7 per cent, although lower-than-expected risk product sales meant that cost reductions for these products were not achieved.

The 51 per cent-owned National Mutual Asia business released results last week, and contributed A$67m, compared with A$49m last year, with investment income rising from A$16m to A$29.1m.

On the fund management side, there was an after-tax profit of A$4.8m, with funds under management rising 9.1 per cent to A$25.3m. However, the National Mntual Health Insurance arm tumbled to a A$9.6m loss, despite investment earnings of A$2.9m, compared with last time's A$11m profit. The parent company said that the loss was largely due to a A$9.2m write-down of property and hospital investments. *Nikki Tait, Sydney*

Optus float 'as soon as possible'

Mr Ziggy Switkowski, chief executive at Optus Communications, the Australian telecoms group, said yesterday thet the timetable for the company's much-delayed stock market flotation was likely to be discussed at a board meeting next month.

He added that shareholders in the group – which include Australian institutional and corporate investors, as well as the UK's Cable and Wireless and BellSouth, of the US – were committed to a float "as soon as possible" but declined to be more specific on when this might be. Optus has previously said that it hopes to float in the current calender year.

Mr Switkowski added that the consolidation of Optus Vision, the loss-making cable venture, was continuing and that about 12 per cent of the Optus Vision workforce had been shed since April. Losses at the cable and pay-TV unit were running at a similar rate to the first half-year, when Optus Vision lost about A$160m. *Nikki Tait and agencies*

Napocor income surges

National Power Corporation (Napocor), the Philippine utility which is awaiting privatisation, yesterday said net income had risen from 1.73bn pesos to 2.34bn pesos ($88m) in the first four months after improved energy sales and lower than expected operating cost. Mr Guido Delgado, president, said the group had been expecting profits of 961m pesos. Energy sales rose from 10,442 gigawatt-hours to 11,114 gigawatt-hours. "The consistent improvement in our profitability can be attributed in part to the availability of dependable capacity from different types of plants," he said.

Profits received a further boost from lower than expected operating expenses of 19.3bn pesos, compared with the projected 23bn pesos. This followed a shift in the state-owned corporation's power mix away from more expensive diesel to coal and steam. The move reduced average fuel costs per kilowatt hour from 1.1 pesos to 81 centavos, Mr Delgado said. *Justin Marozzi, Manila*

No Philippines plant for GM

General Motors, the US carmaker, yesterday said it had no immediate plans to set up an assembly plant in the Philippines, scotching earlier government reports it was to invest 2.2bn pesos in the country. The US group said: "Following a recent review, it has been decided that GM will not establish a vehicle assembly operation in the Philippines . . . at the present time." The country remained a "possible location" for investments in the future.

GM's announcement is an embarrassment to Manila, coming a day after the Board of Investment (BOI) said GM wanted to set up a 2.2bn pesos complex, including a transmission and assembly plant. The BOI last year hilled the Philippines as GM's leading cboice for its Asian hub, but the carmaker decided instead to locate in Thailand. *Justin Marozzi*

Drugs groups shrug off price reductions

By Gwen Robinson in Tokyo

Japan's top eight pharmaceutical companies reported strong earnings in the year to March on hrisk demand for prescription drugs, in spite of government cuts in standard drug prices.

The weakening yen against the dollar during the year belped improve export profitability, while winter flu epidemics boosted demand for related drugs.

Drugs groups face further price reductions this year under government efforts to revise the reimhursement system, following the increase in sales tax from 3 per cent to 5 per cent from April 1.

In addition, intensifying foreign competition is driving an industry shake-out, which is likely to see more mergers and takeovers.

Recurring profits at both Takeda Chemical industries and Sankyo – Japan's top two – climbed above Y100bn ($863m) for the first time, due to increased demand for bighly profitable drugs developed in-house.

Sankyo saw strong domestic sales of its new diabetes drug, Noscal, which is also expected to sell well in the US and Europe.

Takeda saw surging domestic sales of Leuplin, a treatment for prostate and uterine cancer, and its diabetes drug Basen, as well as strong overseas demand for its anti-ulcer agent, Takepron. Yamanouchi Pharmaceutical, Eisai and Dalichi Pharmaceutical saw record recurring profits on strong domestic and export sales.

Healthy year for top drugs groups

	Sales Y bn	% chg	Recurring profit Y bn	% chg
Takeda	637.2	5.9	103.9	13.2
Sankyo	442.6	7.9	112.2	29.1
Yamanouchi	312.4	5.8	85.3	9.6
Eisai	257.9	1.7	45.0	12.1
Shionogi	229.7	4.9	25.1	13.6
Daiichi	229.1	5.4	44.1	3.2
Fujisawa	224.6	2.5	23.6	8.6
Tanabe	185.8	6.1	15.5	64.4

Source: Companies

Takeda, Sankyo, Yamanouchi and Eisai all have original products, some of which surpassed Y100bn in global sales during the year.

Shionogi, Fujisawa Pharmaceutical and Tanabe Seiyaku reported steady growth in sales and profits on strong export earnings and sales of flu-related drugs.

For the current year, all but Shionogi and Fujisawa expect recurring profit to increase, bnt warn that profit growth will slow dne to further price cuts, the impact of the sales tax increase and increased foreign competition.

Some of the companies are increasing capital investment this year, particularly on research and development facilities.

Shionogi will open a R&D facility in Boston in July with np to 50 researchers, and said yesterday it was considering introdncing stock options to its pay scheme.

In Japan, a ban on stock options will be lifted on June 1. Companies that have already announced plans to introduce snch schemes have seen their share prices increase on the news.

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The Financial Times plans to publish a Survey on

Private Finance Initiative

on Friday, July 4.

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FT Surveys

AssiDomän to own Czech paper group

By Greg McIvor in Stockholm

AssiDomän, the Swedish forestry group, yesterday reached agreement with Stratton, an investment company based in the Bahamas, to take control of Sepap, the Czech pulp and paper company over which the two fought a battle for control in 1995.

Assi said it was paying $130m for a 51 per cent tranche of shares in Sepap controlled by Daventree, an offshoot of Stratton, raising its stake to 90 per cent. It is to make an offer to shareholders for the remaining shares, which are listed on the Prague bourse.

The deal represents a victory for Assi, 18 months after it lost out to Stratton in a tussle for control.

Assi, which had built up a 32 per cent stake in Sepap, found itself without a seat on the board after Stratton acquired control in late 1995 in concert with Harvard, the fund management company run by Mr Viktor Kozeny, the Czech entrepreneur.

The two agreed last year to bury their differences and work together, with Assi taking operational responsibility at Sepap.

Assi said yesterday it had expected Stratton to sell for some time. It was not clear why Stratton lost interest in Sepap after battling with Assi for control. Company representatives were not available for comment yesterday.

The two companies also jointly control Segezhabumprom, a Russian paper sack plant. Stratton's future participation in this venture is also believed to be under review, although Assi stressed Stratton was likely to remain its partner "for the foreseeable future".

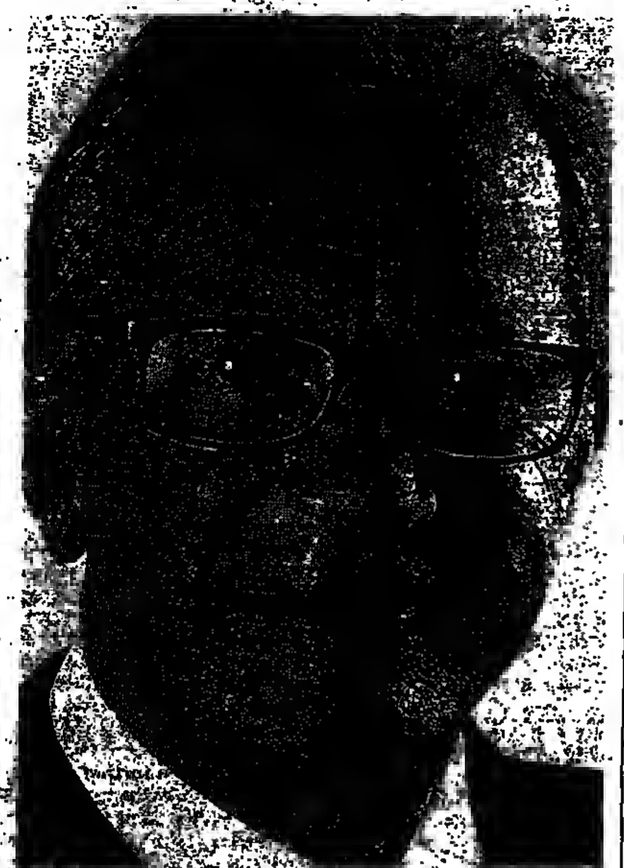
Assi has expanded aggressively in eastern Europe in recent years and has been the most active of Scandinavia's large forestry groups in the region.

Sepap is the largest Czech paper group, with annual production capacity of 305,000 tonnes of paper and pulp. It is the domestic market leader in paper sacks, producing 130m a year.

Since Assi took a stake in 1995, Sepap has cut one-third of its 3,000 workforce and has invested in pulp production and waste paper handling. Its pre-tax profits last year were Kc872m ($29.2m) on sales of Kc5.6bn.

Boehringer Mannheim head gets rich by Roche

Less clear is what the Swiss company will get from the $11bn buy


Curt Engelhorn: was willing to buy out family holders

Mr Curt Engelhorn leads a colourful life. The 71-year-old head of Boehringer Mannheim, the diagnostics and pharmaceuticals company being bought by Roche of Switzerland, likes swimming in Bermuda, skiing in Gstaad and collecting modern art.

With his share of the proceeds from the deal announced on Monday, his wealth will rise dramatically. Roche will pay $11bn for Corange, the Bermuda holding company which owns Boehringer Mannheim.

However, assessing the value of the deal from Roche's point of view is hard because of the German company's structure. "This is a privately held company subject to German accounting rules and legally based in Bermuda," says Mr Mark Becker, London-based pharmaceuticals analyst at J.P. Morgan.

Nevertheless, Mr Becker and other analysts see considerable potential for restructuring and extracting hidden value.

The cost base of Boehringer Mannheim, which has roughly half its 18,000 workforce in Germany, is higher than that of Abbott Laboratories, its big US diagnostics rival, Mr Becker says. "So there should be a huge synergy effect."

DePuy, Corange's US-based artificial joints and orthopaedic products subsidiary, could be profitably sold. Nearly 16 per cent of its shares are traded on the New York Stock Exchange and Mr Becker said "it could be a very attractive property to the right company".

Mr Becker says he is "very positive" about the deal, in which Roche will pay about 24 times prospective 1997 earnings for Corange. This is roughly in line with the average price/earnings ratio in the pharmaceutical industry. "To get control, you would normally have to pay 34 times or even up to 40 times earnings."

Mr Ronald Köhler, analyst at BHF-Bank in Frankfurt, is also keen on the transaction. Based on Corange's 1996 net income of $520m, he says: "I don't think it is too expensive."

Mr Engelhorn is the man largely responsible for building the company up to its present size. Boehringer Mannheim's worldwide turnover is about $3.5bn. As well as laboratory diagnostics, its products include patient care, biochemicals and therapeutics.

The company has no connection with Boehringer Ingelheim, another pharmaceutical company, although the family origins are the same. The Mannheim business was started by Christoph Heinrich Boehringer in Stuttgart in 1859, and moved to Mannheim in 1872.

The Engelhorns came on the scene in 1883 when Friedrich Engelhorn became a partner in the firm, which he acquired nine years later on the death of the founder's son.

The company has stayed in the family's hands, with Mr Curt Engelhorn the main shareholder.

As owner of 42 per cent of Corange, Mr Engelhorn, its non-executive chairman, was willing to buy out shares of the other family holders to retain control of the company. But the price they demanded was beyond his means – so he turned to Roche instead.

Andrew Fisher

French lender seeks capital

Comptoir des Entrepreneurs, the specialist French property lender, hopes substantially to reinforce its capital base by next year to become more financially independent of its parent, writes Andrew Jack in Paris.

Mr Jacques Lebhar, chairman, said he wanted to increase the value of the group's shareholder funds by FFr350m ($61.4m), lifting its Tier 1 solvency ratio above the minimum of 8 per cent set by the Bank for International Settlements.

CdE may raise capital through an offering on the financial markets, the entry of a new shareholder or by transfering funds from existing investors.

The action comes amid considerable discussion about the recomposition of Comptoir's ownership.

Under the terms of a financial rescue brokered in 1995, Assurances Générales de France, the insurance group, holds three-quarters of the capital, a proportion it has no plans to reduce.

However, a further 10 per cent is held by Crédit Foncier de France, a rival property lender which the government took over last year in the face of financial difficulties. Mr Lebhar said this stake might be floated or sold to an existing investor.

CdE is moving towards break-even this year after losses in the wake of property lending during the early 1990s led to its shares being suspended. It cut losses from FFr579m in 1995 to FFr69m last year.

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("Randgold")
NASDAQ trading symbol: RANGY

Durban Roodepoort Deep Limited
(Registration number 01/00928/06)
("Durban Deep")
NASDAQ trading symbol: DROOY

BUFFELSFONTEIN
Buffelsfontein Gold Mines Limited
(Registration number 95/10072/06)
("Buffels")
NASDAQ trading symbol: BLGMY

Blyvooruitzicht Gold Mining Company Limited
(Registration number 05/09743/06)
("Blyvoor")
NASDAQ trading symbol: BLYDY

All companies incorporated in the Republic of South Africa

Proposed merger of Buffels and Blyvoor with Durban Deep, the conversion of the existing Durban Deep options, the issue of new options in Durban Deep and the acquisition by Durban Deep of mineral rights

A copy of a notice giving details of the above mentioned proposals has been posted to shareholders of Buffels, Blyvoor and Durban Deep registered in the United Kingdom and copies are available from the office of the UK Secretaries, Viaduct Corporate Services Limited, 19 Charterhouse Street, London EC1N 6QP.

May 1997

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Listening to You, Building Tomorrow Matsushita Electric

THE STORY BEHIND THE NIGHTLY NEWS.

Behind the scenes, the television broadcasting industry is undergoing a revolution. The type and amount of programming is growing exponentially, with an extraordinary demand for borderless, real-time news reporting.

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Alliance would be UK's first football link with an overseas club

Caspian in Dutch talks

By Patrick Harverson and Simon Kuper

Caspian group, owner of Leeds United, have held talks with PSV Eindhoven, the top Dutch football club, about an alliance involving an exchange of equity stakes and an agreement to share players.

If the deal goes through, it will be the first time e UK club has linked with one from overseas.

Leading British football clubs, which have boosted their commercial sctivities greatly in recent years, are keen to expand their sporting empires but are prevented by league rules from buying into their domestic rivals. Therefore, soms are looking overseas for growth.

They would be following in the footsteps of several big continental European clubs, which have also been keen to develop alliances overseas. In Italy, Parma has links with a number of clubs around the world and Juventus is exploring a possible deal with Oxford United of the English second division. In France, Paris Saint Germain has ties with Servette of Geneva.

Mr Chris Akers, chairman of Caspian, has also talked to two other Dutch clubs – Sparta Rotterdam and ADO Den Haag. But it is understood that PSV, which clinched the Dutch championship on Sunday, has responded positively to Caspian's overtures.

Mr Akers yesterday said that Caspian or another company linked to Leeds could buy a stake in, or exchange shares with, a top Dutch club. He said Leeds could obtain sporting and financial benefits from such a deal, particularly if the partner were to float on a stock market.

PSV is owned by Philips, but the electronics group has recently been reducing its involvement in sport as part of s broeder strategic review.

The club believes its only chance of competing with its big European rivals is to find new funds externally.

Other Dutch clubs are also interested in linking with their counterparts in the UK in order to tap into the business and marketing expertise of the large British clubs.

Feyenoord Rotterdam, the club with the second largest supporter base in the Netherlands after Ajax, claims also to have been approached by Caspian and its adviser, ING Barings.

Feyenoord, however, said it had turned down Caspian, largely because the company had demanded such a large stake that the club would have lost its independence.

Looking to spice up the beat

Alice Rawsthorn examines the problems which EMI faces in the North American market

One of the worst kept secrets in the music industry has been the poor performance of EMI's record labels in North Americe – yesterday the company took ection by rationalising and reshuffling its senior management team.

Some 35 executives, mostly from its New York head office, are leaving, and Mr Ken Berry, the British-born executive who has turned Virgin Records into one of EMI's most profitable labels, has been put in charge of all the gronp's record companies as president of recorded music.

Mr Berry now faces the challenge of restructuring EMI's North American interests, and increasing its market share there. He must slso creete more international superstars for the group – as Virgin has done with the Spice Girls and Smashing Pumpkins.

Meanwhile, the investment community is assessing the implications of the management changes – and yesterday's news that EMI plans to return about £520m ($842m) of capital to investors in a share buy-back has raised speculation about its future ownership.

EMI's immediate concern is the fate of its North American business.

It vies with Warner of the US for third or fourth place in the global music market (worth $40bn at retail last year), behind PolyGram of the Netherlands and Japan's Sony, but ahead of Germany's Bertelsmann and Canada's Seagram. Yet its market share is significantly lower in the US, where it jostles with Bertelsmann for fifth or sixth position.

The US is the world's largest and most profitable music market, and is also highly influential because it generates more global stars than any other country.

Virgin has fared well there as the lebel behind the Smashing Pumpkins, one of the few consistently successful US bands of the 1990s, and, latterly, the Spice Girls.

EMI's other US labels are either associated with less fashionable genres, such as country and Christian music, or with archive acts, notably the Beatles.

Its US margins have come under pressure. Sir Colin Southgate, chairman, estimates that the operating margins of EMI's US record labels fell to 5 per cent in the lest financial year on a slightly reducsd market share of 9.7 per cent.

EMI's target is to raise operating margins to 10 per cent over three years. Sir Colin reckons it should gain 2.5 per cent from yesterday's rationalisation plan, which includes closing offices and dropping poorly-performing artists, therehy redncing annual costs by up to £40m.

EMI will have to extend its success at breaking new acts in the UK, such as Radiohead and the Chemical Brothers, to the US. In theory, the timing looks good. The US music market is reviving. But Mr Berry must move swiftly if he is to take advantage of the hiatus in the US, and the recent recovery in global music sales.

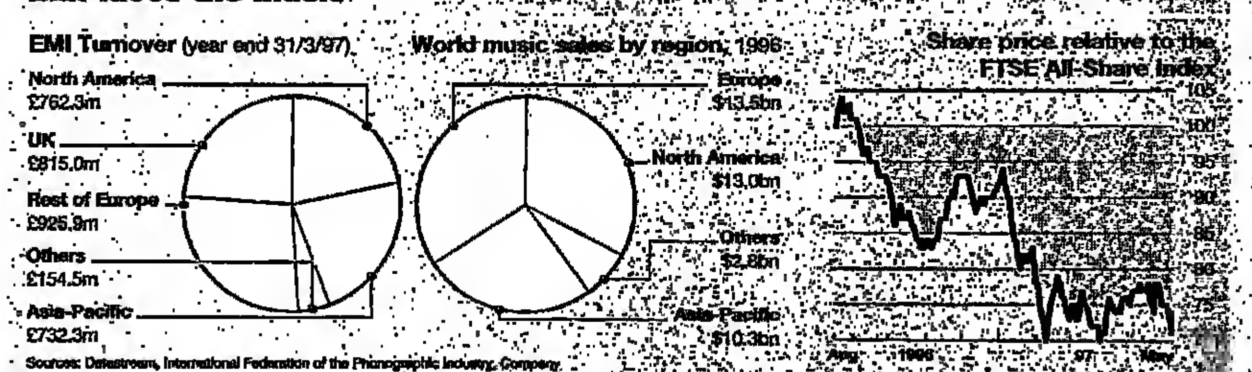
Both Mr Berry's appointment and the rationalisation plan were well-received by analysts. Even so, EMI's shares fell 48p to £11.72½p yesterday, reducing its market capitalisation to £5.09bn, from last August's peak of £6.45bn.

The shares peaked when bid expectations heightened after the demerger of the Thorn rentals business last summer, and have fallen as speculation has faded.

The news that EMI is finally getting to grips with its problems in North America was interpreted as a sign that the board now expects to remain independent, having unsuccessfully held informal merger talks with Seagram and Bertelsmann over the past 18 months.

Both sets of talks foundered because Sir Colin and his team were reluctant to cede control, and could not agree terms for a friendly merger. The only hope for EMI's dwindling band of speculative investors is that, if the shares fall further, the odds on a hostile bid may tumble too.

EMI faces the music



Sources: Datastream, International Federation of the Phonographic Industry, Company


Radiohead


Spice Girls


Smashing Pumpkins

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
CAT	6 mths to Mar 31	0.265	(1.83)	6.41L♠	(0.578L)	50.5L†	(9.8L)	-	-	-	-	-
Care UK	6 mths to Mar 31	12.4	(8.83)	11.9	(1.65)	14.08†	(3.18)	0.4	July 4	0.33	-	1
Dailywin	Yr to Mar 31	30.7	(29.9)	2.07	(2.26)	14.86	(16.28)	4.5	Aug 21	4.5	7.5	7.5
EMI	Yr to Mar 31 ★	3,390	(3,516)	283.9♠	(376♥)	26.9	(47.9)	22	Oct 3	-	30	27
LPA Inds	6 mths to Mar 31	2.74	(2.82)	0.263	(0.276♥)	2.21	(2.07)	1.1	June 9	0.97	-	1.94
McLeod Russel	Yr to Mar 31	55.9	(55.3)	4.22	(2.72)	5.06	(4.75)	3	July 30	2.85	-	6.7
Omi Intl	Yr to Mar 31	43	(45.4)	1.01	(141♠)	1.5	(19.4L)	0.1	June 6	-	0.1	-
SEC	6 mths to Mar 31	41.2	(24.5)	1.98	(1)	7.48	(4.44†)	2.25	July 1	2	-	4.75
Smart (J)	6 mths to Jan 31	9.35	(8.05)	1.78	(1.32)	11.86	(8.77)	2.6	July 14	2.5	-	9.4
Smith (James) Ests	Yr to Mar 24	9.38	(4.44)	4	(3.15)	11.2	(9.4)	4	-	3.74	6.06	5.61

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dunedin W'wide	6 mths to Apr 30 ★	195.76	(208.44)	1.87	(2.88)	1.12	(1.71)	0.48	June 27	0.48*	-	1.9*§
M&G Recovery	Yr to Mar 31	78.01	(80.37)	0.415	(0.222)	5.21	(5.46)	1.9	July 4	2.45	4.9	5.3
Monks	Yr to Apr 30	772.3	(717.2)	9.58	(10.1)	12.34	(13.04)	6.2	Aug 4	6.2	8.7	9.7
Scottish	6 mths to Apr 30	348.7	(322♦)	63	(9.28)	2.93	(3.27)	2.06	July 18	1.96	-	5.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Pro forma. ★Comparatives restated. *After adjusting for scrip issue. §Excludes 0.4p special. ♦At October 31.

GROUPE PARIBAS

Groupe Paribas pursues the development of its international strategy and redeploys its activities in Belgium

Groupe Paribas has just announced two major operations:

- its intention to sell Paribas Belgique, a subsidiary commanding strong positions in general banking services, to the Belgian BACOB group;
- the agreement reached by Cobepa (a 64.9% controlled subsidiary of Groupe Paribas) and the Almanij-Kredietbank group regarding the partition of the equity portfolio held by Gevaert, the Belgian financial holding company.

These operations are in keeping with Groupe Paribas' corporate strategy of refocusing its activities onto its core businesses of international investment banking and specialised financial services; they also illustrate Paribas' determination to redeploy its resources in Belgium with a view to creating a structure better suited to the Bank's strategic core specialties.

Following the successful completion of these operations, Groupe Paribas will have two entities in Belgium -where the Bank has been established for the past 125 years- entirely integrated into its international network and well-placed, on the eve of the introduction of the single European currency, to meeting the needs of its major international customers. Paribas' presence in Belgium will henceforth be organized around the following entities:

- Cobepa, a subsidiary of Paribas Principal Investments, whose equity portfolio will be strengthened by the contribution of half of Gevaert's current business, giving Cobepe a more direct control over its interests and greater leverage in the implementation of its investment strategy in the Benelux;
- a banking branch, using the name of Paribas, whose activities will be focused on the Group's international investment banking activities (Corporate banking, Fixed income, Equity, Advisory services, Asset Management and Securities services);
- a partnership with a major Belgian banking group enjoying extensive capacity for the distribution of financial products.

In this way, Groupe Paribas will maintain its century-old presence in Belgium while playing an active part, with the creation of two front-ranking Belgian institutions in this country, in the reshaping of the banking environment.

These operations will also allow Groupe Paribas more room, financially speaking, to manoeuvre. The increase in liquidity and improved financial ratios give Groupe Paribas new means to continue the international development of its strategic activities.

To The Holders Of
Banco Central de Costa Rica
US $66,611,115 Series A Interest Claims Bonds Due May 21, 2005
US $76,435,529 Series B Interest Claims Bonds Due May 21, 2005

NOTICE IS HEREBY GIVEN that the rate of interest from May 21, 1997 through and including August 20, 1997 is 6.664063% per annum. Interest coupons payable on August 21, 1997 will amount to $639.72 per $100,000 nominal face amount.

First Trust of New York, N.A.
as Fiscal Agent
Dated: May 23, 1997

MINE OPERATOR
UKRAINE COAL PROJECTS

CCI Holdings Limited invites expressions of interest and capability statements from companies with underground coal mining experience to financially participate and operate a number of significant coal projects in Ukraine-Donbass Region.

CCI Holdings Limited, an Australian based company, is a major provider of technical services to the world coal industry. Through its subsidiary, CCI Ukraine Ltd, the company has beeo operating in Ukraine for the past 5 years and has developed a number of greenfields projects to the stage of development. CCI maintains a close association at senior Government level and advises the Ukraine Ministry of Coal.

Expressions of interest are sought form an operator to participate in the exploitation of these lucrative projects all of which have been independently assessed by Western experts and are fully funded.

Existing projects include:

- A SHALLOW (40-180 METRE) HIGH GRADE ANTHRACITE DEPOSIT WITH PRODUCTION CAPACITY OF 400,000 TPA.
- A MAJOR HARD COKING COAL DEPOSIT WITH RECOVERABLE RESERVES IN EXCESS OF 64 MILLION TONNES.

Enquiries should be directed to:
Mr G Lambert
CCI Holding Limited
Tel: 61 2 9247 9642
Fax: 61 2 9247 4267
E-Mail: ccimk@ozemail.com.au

The Chase Manhattan Corporation
U.S. $250,000,000
Floating Rate Subordinated Notes due 2000
For the three months 27th May, 1997 to 27th August, 1997 the Notes will carry an interest rate of 5.875% per annum with a coupon amount of U.S. $150.14 per U.S. $10,000 principal amount, payable on 27th August, 1997.

Bankers Trust Company, London — Agent Bank

CREDIT COMMERCIAL DE FRANCE
FRF 600 000 000 (NOMINAL OUTSTANDING : FRF 100 950 000)
REVERSE FLOATER BONDS DUE 1997
ISIN CODE : XS0040688151
For the period May 26, 1997 to November 26, 1997 the new rate has been fixed at 15.73299 % P.A.
Next payment date : November 26, 1997
Coupon n° : 9
Amount :
FRF 791.02 for the denomination of FRF 10 000
FRF 7 910.20 for the denomination of FRF 100 000
FRF 79 101.98 for the denomination of FRF 1 000 000
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE BANK & TRUST S.A.
LUXEMBOURG

Lonrho to continue JCI merger talks

By Charis Gresser

Lonrho, the conglomerate, decided to continue merger talks with JCI, the South African mining house following a board meeting yesterday. Mr Nicholas Morrell, Lonrho's chief executive, is due to meet Mr Mzi Khumalo, JCI's chairman, today.

The talks about the £2bn ($3.24bn) merger are a long way from resolution. "We're still at the stage of looking at the idea of a merger and what financial benefits it might produce," Lonrho said.

Lonrho and JCI, advised by Deutsche Morgan Grenfell and SBC Warburg respectively, are far from hammering out a common position on price or the value of assets. Other issues to be negotiated include the future of Lonrho Platinum and how large Lonrho's controlling stake will be.

The outcome of asset valuations, usually undertaken during the due diligence process, will be key to the talks progressing further.

Both companies trade at a discount to net asset value, although analysts reckon that Lonrho's shares suffer from a far larger discount of between 15 per cent and 20 per cent. Lonrho shares closed down 1½p to 143p yesterday, against 190p a year ago.

Both companies have indicated they see clear commercial benefits from combining their respective mining assets, which include coal, gold and platinum. Anglo American, the South African mining giant which controls 27 per cent of Lonrho, hopes to swap its Lonrho shares for Lonrho's $400m stake in Ashanti Goldfields of Ghana. The talks have attracted opposition from Mr Tiny Rowland, Lonrho's former chief executive of 33 years, who remains its largest private shareholder.

Trevor Humphries

Nicholas Morrell, who will meet Mzi Khumalo of JCI today

LEX COMMENT

Halifax

So 23 per cent of Halifax shareholders plan to ignore a barrage of free advice and sell their shares immediately. Given the experience of Alliance & Leicester since listing last month, this looks naive. Not only did A&L shareholders who sold into the market receive a higher price than those who sold in the auction process, but the price has since risen a further 13 per cent. Still, this approach may yet prove to have an element of street wisdom about it. While the arguments for a re-rating of the banking sector are persuasive, the 15 per cent outperformance of the market over the past two months resembles nothing so much as an invitation for a correction. So does the grey market price for Halifax of 705p, which puts it on a multiple of about 16½ times 1997 earnings, a rating not much short of that enjoyed by Lloyds TSB, a bank which is more profitable than Halifax and increasing its earnings twice as fast. Still, given the technical squeeze under way, the chances are that the upward spiral in bank shares will continue, at least until Halifax enters the FTSE 100 index on June 28.

Trying to choose the top will be a dangerous business; the sector is very vulnerable to any bad news, such as a setback in the gilts market. So for the risk averse, it makes perfectly good sense to pocket what will anyway be a handsome windfall. For those of sterner mettle, though, Halifax is a sufficiently attractive business that long-term holders should be rewarded.

Halifax windfall tempts holders to sell

By George Graham, Banking Correspondent

A quarter of all Halifax members have decided to sell their shares in the converting building society straightaway, netting immediate windfalls that are expected to average more than £300 ($3,726).

Halifax announced yesterday that members have asked to sell 568m shares, worth an estimated £4bn, at the auction to be conducted for institutional investors on Friday, ahead of the converting building society's stock market flotation next Monday. That means 23 per cent of Halifax shares will be on offer at the auction, easing the fears of pension funds and insurance companies that they would be unable to lay their hands on the stock.

Bets with IG Index, the City bookmaker, suggest a price range of 705-715p at the close of trading next Monday.

While IG Index's prices reflect only individual bets, several institutions have indicated that they may bid up to 700p at Friday's auction. Members who have chosen to sell straight away will receive the average auction price.

Savers and borrowers receiving the minimum handout of 200 shares could therefore receive nearly £1,400, while the average distribution of 330 shares would fetch more than £2,300.

This price level is far higher than even the most enthusiastic estimates of Halifax's underlying value, and rests on worries that institutions will be squeezed out of the market by a lack of shares.

Many institutions were burnt by their experience with Alliance & Leicester, whose shares have soared by nearly £1 since it floated last month to 627½p yesterday.

With a market capitalisation of £17.7bn, Halifax will immediately become one of the 10 largest companies in the FTSE 100 index. Quantitative investors who try to match the index are under particular pressure not to miss out on its shares.

About 211m shares have so far not been claimed.

Some overseas investors are bemused at what they see as a bubble in UK banks shares. "We cannot help observing that at their current prices most UK banking issues have probably gotten somewhat ahead of themselves," said Mr Raphael Soifer, banking analyst with Brown Brothers Harriman in New York.

Schroders arm sets up $1bn fund

By Charis Gresser

Schroder Ventures, the venture capital arm of Schroders, yesterday launched a $1bn private equity fund, the largest buy-out fund outside the US.

The fund will invest in European conglomerates in the throes of restructuring and businesses put up for privatisation by European governments. It will also target family-run businesses where the owners are keen to realise their investment but unwilling to list on an exchange.

Mr Peter Smitham, chairman of Schroder Ventures Europe, said the fund aimed for an internal rate of return of 25 per cent a year. "We've averaged that for our European funds over the past 10 years, which works out at an 11 per cent premium to the European markets."

It has taken Schroders a year to set up the fund which will succeed its country specific buy-out funds. The average size of the deals which the new fund will target is $100m.

Mr Smitham denied the emergence of a pan-European fund indicated UK deals were becoming more difficult to find.

But he added that some European markets were likely to be less competitive than the UK and that generally the private equity business in continental Europe was still in its infancy.

Fortune sells remaining UK onshore oil assets

By Robert Corzine

Fortune Oil, the London-listed petroleum trading, distribution and marketing group which focuses on China, is to sell its remaining UK onshore oil production assets. Mr Barry Cheung, the Hong Kong-based chief executive, said the group was in talks to sell East Midlands Oil and Gas, which reported losses of £63,000 ($102,000) for 1996.

Mr Cheung said that Fortune had also decided to sell its Fu Dao liquefied petroleum gas business in China because of poor margins.

Although LPG volumes rose by more than 77 per cent last year to 37,000 tonnes, the area in which Fu Dao operates suffers from oversupply, Mr Cheung said the sale, however, was unlikely to result in a loss.

Fortune relies on its Chinese oil trading business for the bulk of its profits, but Mr Cheung said contributions from its growing distribution, marketing and infrastructure investments in China should increase considerably. "In three years trading will no longer be the dominant element in the earnings," he predicted.

He said Fortune was on track to raise £25m in a rights issue in June or July. Most of the proceeds would fund its 24.5 per cent share of a $167m aviation fuel joint venture that will supply 16 airports in southern and central China.

Mr Cheung said Mr Daniel Chiu, Fortune's largest shareholder with a 34 per cent stake, had already decided to take up all of his shares.

Some of the new funds will also be used to expand Fortune's network of 11 retail petrol stations in China.

Although Fortune had so far opted for organic growth of its retail system, Mr Cheung said the company might also look at acquisitions. "There are opportunities to acquire 20-30 stations at a time," he said.

The chief executive added, however, that such a move would depend on the quality of the sites and the licences that went with them.

AEGON N.V., registered in The Hague, The Netherlands

FINAL DIVIDEND 1996

At the Annual General Meeting of Shareholders held on 15 May, 1997, the final dividend for the fiscal year 1996 was fixed at NLG 1.61 per common share.

With reference to our advertisement of 22 March, 1997, the number of dividend coupons required in order to qualify for one new common share has been determined at 93, based upon the average share price as at 27 May, 1997.

For shareholders who have elected for payment entirely in cash, dividend coupon no. 10 will pay NLG 1.61 less a 25% dividend tax.

The final dividend will be payable as from 30 May, 1997 at the head offices of: ABN AMRO Bank N.V., Bank Labouchere N.V., Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Internationale Nederlanden Bank N.V., MeesPierson N.V.; Kredietbank N.V., Brussels; Kredietbank S.A. Luxembourgeoise, Luxemburg; Schweizerischer Bankverein, Schweizerische Kreditanstalt, Schweizerische Bankgesellschaft, Zürich, Basel and Geneve; Deutsche Bank A.G., Düsseldorf and Barclays Bank Plc, London.

Rights to the dividend payment in cash or stock will be made available to holders of CF Certificates through those institutions which have been acting as custodians of the coupon sheets for their shares at the close of business on 15 May, 1997.

The published commission rates will be paid to members of the Amsterdam Stock Exchange to enable them to exchange dividend coupon no. 10 for common shares without charging commission to shareholders.

The Executive Board

The Hague, 29 May, 1997
50 Mariahoeveplein

AEGON Insurance Group

NOTICE TO BONDHOLDERS

THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF HOLDERS OF THE BONDS. IF HOLDERS OF BONDS ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE, THEY SHOULD IMMEDIATELY SEEK PERSONAL FINANCIAL ADVICE FROM A STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER FINANCIAL ADVISER.

Ladbroke Group Finance (Jersey) Limited (the *Issuer*)
(incorporated with limited liability in Jersey)
guaranteed on a subordinated basis by
Ladbroke Group PLC
(incorporated with limited liability in England)

£83,000,000 9 per cent. Convertible Capital Bonds
Due 2005 (the *Bonds*)

NOTICE IS HEREBY GIVEN to Bondholders of the Issuer's election in accordance with Condition 8 of the Bonds, to convert the Bonds into Preference Shares which shall then be redeemed immediately upon allotment (*Required Conversion and Redemption*) at their paid-up value of £1,000 each together with accrued interest up to but excluding 30 June, 1997 (*The Required Conversion Date*).

Bondholders retain the right to convert and exchange Bonds for Ordinary Shares in the Guarantor until 23 June, 1997. The current Exchange Price is 364 pence.

Full details of the Required Conversion and Redemption and the Conversion and Exchange Rights are available at the specified office of the Principal Paying Exchange and Conversion Agent and Registrar and at the offices of the other Paying and Conversion Agents listed below.

Bonds and Coupons will become void unless presented for payment within a period of ten years and five years respectively from the Relevant Date for payment thereof.

Ladbroke Group Finance (Jersey) Limited Dated 28th May, 1997

PRINCIPAL PAYING AND CONVERSION AGENT
The Royal Bank of Canada
71 Queen Victoria Street
***London* EC4V 4DE**

PAYING AND CONVERSION AGENT

Banque Paribas Luxembourg
10A Boulevard Royal
L-2093, Luxembourg

ING Bank (Belgium) S.A.
Rue de Ligne 1
B-1000 Brussels
Belgium

intrum justitia

(Registered in Curaçao No. 41415)

Notice to Shareholders

Shareholders of Intrum Justitia NV, a corporation organized and existing under the laws of The Netherlands Antilles, with registered offices at Chumaceirokade 3, Willemstad, Curaçao, The Netherlands Antilles, are hereby informed that in the Annual General Meeting of May 27, 1997 it has been resolved to determine the payment of the final dividend of 2.8 pence per share, payable on June 6, 1997 at the following addresses:

Paying Agents

Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal
L-2955 Luxembourg
Luxembourg

Hambros Bank Limited
41 Tower Hill
***London* EC3N 4HA**
United Kingdom

Bearer shareholders are asked to submit Coupon no. 18 to the Paying Agents for collection of the dividend.

May 28, 1997

SAKURA FINANCE HONGKONG LIMITED
U.S.$100,000,000
Guaranteed Floating Rate Notes due 1997
Guaranteed as to payment of principal and interest by
THE SAKURA BANK, LIMITED

For the three month period 27th May, 1997 to 27th August, 1997 the Notes will carry an interest rate of 6.0625% per annum with a coupon amount of U.S. $154.93 per U.S. $10,000 Note and U.S. $3,873.26 per U.S. $250,000 Note, payable on 27th August, 1997.

Bankers Trust Company, London — **Agent Bank**

To Advertise
Your Legal Notices
Please contact
Melanie Miles on
Tel: +44 0171 873 3349
Fax: +44 0171 873 3064

ETEBA — IRO Industrial Reconstruction Organisation S.A. — Bank of America

INVITATION FOR EXPRESSIONS OF INTEREST IN PURCHASING THE SHARES OF KERAFINA S.A.

Within the framework of Law 2000/91, the Industrial Reconstruction Organisation (IRO) is contemplating the sale of the shares it owns in KERAFINA S.A. (hereinafter "the Company"). The IRO has also been authorised by the General Bank of Greece S.A. and ETBA S.A., both *minority shareholders in the Company, to simultaneously negotiate the* shares they own in the Company. Consequently, the total number of shares offered for sale corresponds to about 90% of KERAFINA's share capital. ETEBA S.A. and BANK OF AMERICA NT&SA have been appointed joint advisors to IRO for the above-mentioned sale.

KERAFINA was established in 1962, and engages in the production and marketing of vitreous porcelain sanitary ware. *The Company accounts for about 25% of total Greek* production and enjoys a substantial domestic market share. Kerafina's self-owned production facilities are conveniently located at the Kalamaki district of the province of Korinthia, 75 km. from the centre of Athens. The Company employs 190 people. The following table presents key financial information for the past five years:

(In millions of drachmas)

	1992	1993	1994	1995	1996
Turnover	1,175	1,196	1,381	1,659	1,706
Pre-tax results	37	4	-81	1	10
Total assets	1,441	1,447	1,693	1,872	1,996
Total own capital	959	959	836	836	864

During the present phase of the sale process, interested parties are invited to obtain the Offering Memorandum prepared by the Advisors, after signing a confidentiality agreement. Potential investors may submit by June 13, 1997, in writing, their expression of interest for the purchase of the above-mentioned Company shares, which must contain at least the following:

- An indicative price for the purchase of the offered block of shares
- An estimation of the number of job positions to be maintained
- Their plans for the development of the Company

Interested parties should also include in their expression of interest the additional information they require regarding the evaluation of the Company, and may note any issues which, in their opinion, would affect the submission of binding offers at a later stage.

An invitation to submit binding offers will be published in the press after June 13, 1997 and will includes the timetable to be followed hereafter, the terms and conditions applicable for the submission of offers, as well as the criteria with which the offers will be evaluated.

However, the IRO and the other selling parties retain the right to declare the procedure null and void in the event that the binding offers finally submitted are deemed to be unsatisfactory.

All parties interested in obtaining the Offering Memorandum or any other relative information should contact the Advisors at the following addresses:

ETEBA S.A.
Attention: Mr. G Koutsoudakis
14 Amalias Avenue
102 36 Athens, Greece
Tel. (301) 3296470 Fax: (301) 3296393

Bank of America NT & SA
Attention: Mr. G Bravou
39 Panepistimiou Street
105 64 Athens, Greece
Tel. (301) 3255227 Fax: (301) 3241936

This announcement appears as a matter of record only. *April, 1997*

mobistar

BEF 18,000,000,000

Project Finance Facility

to finance the second GSM network in Belgium

Lead Arrangers

ABN AMRO Bank N.V. — Banque Nationale de Paris

Co-Arrangers

The Sumitomo Bank, Limited — Kredietbank Project Finance — Dresdner Bank

Co-Underwriter

Rabobank International

Lead Managers

ASLK Bank N.V. — BACOB Bank C.V.
Bank Brussels Lambert S.A. — Bayerische Landesbank International S.A.
Crédit Commercial de France — Crédit Communal S.A.
De Nationale Investeringsbank N.V. — Deutsche Bank A.G.
Generale Bank — Paribank N.V.
Royal Bank of Canada — The Fuji Bank Limited
The Sakura Bank Limited — The Sanwa Bank Limited
Société Générale

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ABN-AMRO Bank — BNP Banque Nationale de Paris — The Sumitomo Bank, Limited — KB — Dresdner Bank

INTERNATIONAL CAPITAL MARKETS

Moscow increases offer

INTERNATIONAL BONDS

By Edward Luce

Emerging market issuers yesterday took advantage of last week's decision by the Federal Reserve to leave US interest rates unchanged with a series of landmark eurobond issues.

Generally tighter spreads and buoyant investor appetite prompted the City of Moscow to increase its debut eurobond offering by at least $100m from earlier estimates.

The three-year $500m deal, which Moscow officials say will be the first of many eurodollar issues, traded well in the secondary markets with US investors taking around 35 per cent. The remainder went mostly to European and Asian funds.

Officials at Credit Suisse First Boston, which jointly led the deal with Nomura International, said the issue tightened sharply after launch. Priced to yield 315 basis points over Treasuries, bids were accepted at a spread of 308 basis points over Treasuries last night.

"It was trading flat to the Russian sovereign 4½-year bond [issued last November]," one trader said. "We would expect a Russian sovereign five-year to be priced at about 315 basis points, so Moscow is trading very competitively."

With a credit rating of Ba2/BB-, which is "constrained" by the sovereign debt rating awarded to Russia, some traders said the Moscow eurobond should be trading through sovereign paper. "Moscow has a healthier credit outlook than the Federation of Russia," said one.

The success of Moscow's debut eurobond is likely to encourage other Russian issuers, such as the City of St Petersburg and the region of Nizhny Novgorod, to launch their debut offerings in the near future.

The Federation of Russia, which issued its first D-Mark-denominated bond earlier this year, is planning to bring out its first seven-year eurodollar issue within the next month. The market expects it to total up to $1bn.

LEBANON also benefited from market conditions and an element of novelty value with its debut offering in D-Marks. Priced to yield 175 basis points over five-year German bunds, the paper tightened rapidly to around 168 basis points after launch.

Officials at lead managers Commerzbank and Société Générale said about 30 per cent of the paper was taken by emerging market funds while Swiss retail investors showed particularly strong demand.

Officials said Lebanon wanted to diversify its investor base and felt the D-Mark was the best vehicle to maximise the country's European exposure in advance of the launch of the euro in 1999. They said the issue, at just DM250m, was sold out very rapidly. "We could have increased the allotment quite substantially and still sold out," said one. "Lebanon is an improving credit story and the yield is attractive to retail investors."

At Lebanon's request, the lead managers focused distribution more on European than Middle Eastern investors, although 10 per cent of SocGen's share was taken by investors in the Gulf.

SLOVENIA also elicited a strong response for its debut offering in D-Marks, although with a credit rating of A3/A, retail buyers were less visible. Priced to yield 43 basis points over seven-year German bunds, the paper tightened by about 1 basis point after launch.

Officials at CSFB, lead manager with Dresdner Kleinwort Benson, said between 30 and 40 per cent of the paper went to UK institutional funds. The launch spread compared well with Slovenia's debut eurodollar issue last year which was priced to yield 58 basis points over Treasuries.

"It is very difficult to benchmark an issue like this because Slovenia is in a category of its own," said one trader. "It is still an emerging market issuer but it is trading at around the same levels as a Republic of Greece seven-year would probably be priced."

Yesterday's issue was comfortably the tightest launch spread by an eastern European borrower to date.

Elsewhere, BLFA, Bavaria's main Landesbank, tapped the eurodollar sector for just the second time with a five-year $400m offering. Officials at SocGen, joint leads with ABN Amro, said that the BLFA was also planning to tap other currencies. The paper was priced to yield 14 basis points over five-year Treasuries.

SocGen also underwrote a HK$500m seven-year offering by the EUROPEAN INVESTMENT BANK. The issue was priced to yield 34 basis points over equivalent Hong Kong government paper.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
City of Moscow(s)	500	9.50#	99.80R	May 2000	1.00R	+315(6%%-00)	CSFB/Nomura Intl
BLFA	400	8.75	99.668R	Jun 2002	0.25R	+14(WI 5yr)	ABN Amro/SGST
Finance for Danish Industry	350	6.75	99.715R	Jun 2001	0.225R	+30(6%May00)	Salomon Brothers Intl
■ D-MARKS							
Deutsche Finance Neths	500	4.75	99.276R	Jun 2002	0.25R	+20(4½Feb02)	Deutsche Morgan Grenfell
Republic of Slovenia	400	5.75	99.043R	Jun 2004	0.35R	+43(6%May04)	CSFB/Dresdner KB
Republic of Lebanon	250	6.50	99.75R	Jun 2002	0.625R	+175(8Jan02)	Commerzbank/SocGen
Oest Kommunalkredit	200	6.125	102.96	Jul 2007	3.00	-	Bayerische Landesbank
Household Bank Nevada(a)‡	150	(a,s)	99.85R	Apr 2002	0.175R	-	ABN Amro/Merrill Lynch
Ottoman Finance	150	8.00	100.00R	Jun 2000	1.375R	+388(5%%-00)	JP Morgan/UBS
■ YEN							
STB Cayman Capital(b)§	100bn	(0.5-1)#	100.00	Oct 2007	2.50	-	Salomon Brothers Intl
TTB Finance Cayman(c)§	50bn	(c1)#	100.00	undated	2.50	-	Goldman/SBC Warburg
Galois★	35bn	2.75	100.00	Jun 2002	0.35	-	IBJ International
■ STERLING							
DR Investments	100	8.125	99.332R	Jun 2007	0.45R	+82(7¼Dec07)	JP Morgan Securities
■ SWISS FRANCS							
CCDQ(d)	150	3.25	101.90	Apr 2004	2.50	-	Del Gottardo/Merrill
■ CANADIAN DOLLARS							
Bayerische Vereinsbank(s)	100	6.00	98.725R	Dec 2002	0.275R	+25(7%-01)	CIBC Wood Gundy
■ PESETAS							
De NIB	10bn	5.50	100.63	Jun 2002	1.625	-	BSN/UBS
Korea Development Bank	10bn	5.45	101.007	Jun 2000	1.25	-	BCH/Citibank España
■ DANISH KRONER							
Commerzbank O'seas Fin	400	(e)	101.885	Jul 2005	2.00	-	Kredietbank Intl Group
European Inv'ment Bank(s)	400	5.50	102.00	Dec 2002	1.875	-	ABN Amro/BGL
■ NEW ZEALAND DOLLARS							
World Bank	100	7.625	101.70	Jun 2002	2.00	-	ABN Amro/CBA
■ RAND							
World Bank(f)	2bn	zero	13.58R	May 2012	0.20R	-	JP Morgan Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Fungible with DM300m. a1) 3-mth Libor +⅛%. b) Fixing: 9/6/97. Exchangeable into Sumitomo Trust & Banking Co shares at indicated 10% premium. Annual downward resets, min Y500. Callable from 1/10/02. c) Fixing by 2/6/97. Exchangeable into shares of Toyo Trust & Banking Co at indicated 2.5% premium. Annual downward resets, min Y400. Callable from 30/9/02 at par. c1) Indicated 1% to 30/9/02, then 6-mth Libor +250bp. d) Fungible with SFr150m. Plus 71 days accrued. e) 5% to 7/7/01, then 8%. f) Fungible with R1bn. s) Short 1st coupon.

Bond to help fund power station

By Samer Iskandar

An issue of £236m of 25-year bonds to help fund the building of a '$337m' power station in the UK is expected later this week.

The 790MW Sutton Bridge Power combined-cycle gas turbine project in Lincolnshire is already under construction. SBP is owned by Enron of the US.

BZW, which is involved in the issue alongside Merrill Lynch, would not comment on the timing of the deal yesterday.

The issue was yesterday awarded a BBB rating by Standard & Poor's, the US credit rating agency.

S&P said that compared with other independent power producers, SBP would originally be highly leveraged, with a financing structure comprising 87 per cent debt and 1 per cent equity.

But S&P also pointed out "exceptionally strong construction arrangements" and strongly supported revenues, which are in large part "virtually guaranteed by Enron through 2014".

However, the investment risk is expected to rise after that date, during the so-called "merchant power period" when the plant will have to bid daily into the UK power pool. This will result, says S&P, in "complete exposure to fuel and electricity price and volume risk". Furthermore, Enron expects to sell between 50 per cent and 90 per cent of its participation in the longer term.

"Enron ... will have limited incentive beyond its guarantees and commitments to support the project if economics seriously deteriorate," S&P said.

Benchmark US long bond yield rises above 7%

GOVERNMENT BONDS

By Jane Martinson in New York and Samer Iskandar in London

Nervousness in the US bond market saw the benchmark yield of the 30-year bond rise above the 7 per cent barrier at mid-session yesterday.

The long bond fell $\frac{13}{32}$ to 95, pushing the yield to 7.022 per cent, the first time it has risen above the 7 per cent mark for a month.

Traders blamed continued selling by hedge funds unwinding positions based on the strength of the dollar against the yen. One blamed the French election results and said light volume after the long weekend was exaggerating any trend.

The morning trend was emphasised when the market took fright from upbeat consumer confidence figures. The Conference Board index revealed a larger than expected increase in confidence to 127.1 in May, a 28-year high and well above the average for this year.

The two-year note fell $\frac{1}{16}$ to $100\frac{1}{16}$, yielding 6.249 per cent, and the 10-year bond by ¼ to 86⅝, yielding 6.773 per cent.

Europe's high yielding markets benefited from the outcome of the first round of the French election, indicating that the left-wing opposition might achieve a slight majority.

"It now looks like we are moving towards a softer Emu," said Ms Phyllis Reed at BZW. "This makes it more likely that countries like Spain, for example, will make it into the first round."

PORTUGUESE BONDS showed the strongest performance, the 10-year benchmark bond rising 1.30 to close at 119.80.

ITALIAN BTPS also rose strongly. The 10-year benchmark BTP closed 0.20 higher at 96.84, its yield spread over bunds tightening by 9 basis points to 135 points.

SPANISH BONOS also outperformed. Both the June bono future and the 10-year cash bond rose 0.45, to end the day at 115.53 and 105.38 respectively. The yield spread of bonos over bunds narrowed by 6 basis points to 65 points.

OAT futures recover from early weakness to end day slightly higher

French bonds recovered from early weakness to end the day slightly higher, Samer Iskandar writes. The June notional future on 10-year OATs settled at 128.44, up 0.14, after falling as low as 128.08 during the day. In the cash market, the yield spread of bunds over OATs widened by 1 basis point to 11 points, after tightening 4 points on Monday.

"The worst may be over," said Ms Phyllis Reed, European bond strategist at BZW. Another analyst said: "The sell-off in the bond market did not take place because the franc remained strong on the foreign exchange market, but the mood is certainly more bearish now."

Ms Reed also said selling pressure on the long end of the yield curve was not as pronounced as it might have been, mainly because holdings of OATs by overseas investors were at very low levels.

She also said that in the longer term, the outcome of the French elections could become a bearish factor for most European bonds.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.7195	+0.450	7.54	7.65	7.79
Austria		5.750	04/07	98.7000	-0.100	5.93	5.80	5.85
Belgium		6.250	03/07	101.7200	+0.030	6.01	5.89	5.94
Canada *		7.000	12/06	102.8000	-0.600	6.60	6.51	6.66
Denmark		6.000	03/06	110.4200	-0.260	6.41	6.33	6.54
France	BTAN	4.750	03/02	99.6971	+0.130	4.82	4.70	4.78
	OAT	5.500	04/07	97.6800	+0.150	5.82	5.66	5.71
Germany Bund		6.000	07/07	100.5900	+0.050	5.92	5.81	5.80
Ireland		8.000	08/06	108.7100	+0.140	6.70	6.60	6.67
Italy		6.750	02/07	96.8400	+0.200	7.21†	7.05	7.42
Japan	No 145	5.500	03/02	116.1626	-0.110	1.84	1.74	1.41
	No 182	3.000	09/05	102.4190	-0.460	2.65	2.47	2.18
Netherlands		5.750	02/07	99.5000	-	5.81	5.71	5.71
Portugal		9.500	02/06	119.8000	+1.300	6.45	6.38	6.79
Spain		7.350	03/07	105.3800	+0.450	6.57	6.50	6.83
Sweden		8.000	08/07	106.7831	+0.440	7.04	6.95	7.17
UK Gilts		7.000	06/02	99-24	-2/32	7.06	6.95	7.18
		7.250	12/07	100-08	-4/32	7.22	7.09	7.48
		9.000	10/08	113-05	-3/32	7.28	7.15	7.57
US Treasury *		6.625	05/07	98-27	-11/32	6.79	6.73	6.89
		6.625	02/27	94-30	-18/32	7.03	6.94	7.05
ECU (French Govt)		7.000	04/06	105.7000	+0.190	6.15	5.95	6.09

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.28
Prime rate	8½	Two month	-	Three year	6.46
Broker loan rate	7¾	Three month	5.16	Five year	6.63
Fed.funds	5⅝	Six month	5.46	10-year	6.80
Fed.funds at intervention	-	One year	5.88	30-year	7.04

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	128.46	128.44	+0.14	128.50	128.08	208,969	157,748
Sep	126.96	126.86	+0.10	126.98	126.54	16,527	17,615
Dec	96.40	96.30	+0.16	96.40	96.40	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
125	3.44	2.21	2.59	-	0.34	0.72
126	2.44	-	1.91	-	0.58	1.03
127	1.46	0.85	1.31	0.02	0.97	1.43
128	0.57	0.43	0.86	0.13	1.54	1.87
129	0.08	0.18	0.51	0.62	2.29	2.61

Est. vol. total, Calls 21,633 Puts 61,432. Previous day's open int., Calls 148,055 Puts 198,174.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.81	100.76	-0.24	100.86	100.56	172495	230180
Sep	99.78	99.73	-0.23	99.81	99.55	13063	37232

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9950	0.74	1.01	1.21	1.18	0.51	0.78	0.98	1.95
10000	0.49	0.75	0.94	0.98	0.76	1.02	1.21	2.25
10050	0.29	0.54	0.72	0.81	1.06	1.31	1.49	2.58

Est. vol. total, Calls 13127 Puts 20303. Previous day's open int., Calls 112023 Puts 110443

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	129.20	129.82	-0.08	130.07	128.90	58734	88500
Sep	129.90	130.32	-0.09	130.57	129.51	4450	20461

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
8000		23.72		0
8050		23.22		0
8100		22.72		0

Est. vol. total, Calls 1022 Puts 304. Previous day's open int., Calls 26269 Puts 28628

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.05	115.53	+0.45	115.56	114.90	111,796	76,703
Sep	114.27	114.75	+0.44	114.75	114.27	1,018	8,890

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112-09	112-12	-0-03	112-17	112-02	94161	166591
Sep	112-16	112-22	-0-01	112-26	112-12	36078	28751

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
112	1-18	1-43	2-02	2-34	0-38	0-63	1-22	2-14
113	0-46	1-10	1-32	2-04	1-02	1-30	1-52	2-48
114	0-24	0-49	1-04	1-41	1-44	2-05	2-24	3-21

Est. vol. total, Calls 312 Puts 1183. Previous day's open int., Calls 27807 Puts 17459

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.34	94.16	-0.08	94.26	94.20	53	5,347
Sep	-	93.78	+0.12	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	109-08	108-26	-0-12	109-10	108-22	132,199	413,465
Sep	108-26	108-14	-0-12	108-28	108-09	3,647	78,757
Dec	108-10	107-31	-0-13	108-16	107-28	48	26,962

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	123.44			123.32	123.09	3305	na
Sep	122.01			121.87	121.66	1758	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue May 27	Day's change %	Fri May 23	Accrued interest	xd adj. ytd		Low coupon yield May 27	May 23	Yr. ago	Medium coupon yield May 27	May 23	Yr. ago	High coupon yield May 27	May 23	Yr. ago
1 Up to 5 years (19)	119.97	-0.01	119.98	2.21	4.81	5 yrs	7.08	7.07	7.50	7.16	7.13	7.65	7.18	7.18	[illegible]
2 5-15 years (21)	152.61	-0.09	152.74	3.48	3.79	15 yrs	7.28	7.26	8.22	7.30	7.29	8.24	7.40	7.39	[illegible]
3 Over 15 years (6)	178.12	-0.10	178.31	6.52	3.18	20 yrs	7.33	7.31	8.30	7.31	7.29	8.31	7.42	7.29	[illegible]
4 Irredeemables (5)	201.75	-0.22	202.19	1.03	7.10	Irred.†	7.44	7.43	8.33						
5 All stocks (51)	146.64	-0.06	146.73	3.54	4.18										

Index-linked	Tue May 27	Day's change %	Fri May 23	Accrued interest	xd adj. ytd		Inflation 5% May 27	May 23	Yr. ago	Inflation 10% May 27	May 23	Yr. ago
6 Up to 5 years (2)	204.32	-0.07	204.46	0.93	3.03	Up to 5 yrs	3.50	3.48	2.65	2.65	2.62	1.38
7 Over 5 years (10)	195.65	-0.18	195.90	1.29	2.86	Over 5 yrs	3.67	3.66	3.82	3.46	3.45	3.60
8 All stocks (12)	195.42	-0.17	195.74	1.25	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 27	May 23	May 22	May 21	May 20	Yr ago	High*	Low*
Govt. Secs. (UK)	95.87	95.91	95.66	96.50	96.72	92.26	97.51	93.31
Fixed interest	120.35	120.52	120.30	120.65	120.86	111.06	121.36	115.32

Gilt Edged Activity Indices

	May 23	May 22	May 21	May 20	May 19
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 27

U.S. DOLLAR STRAIGHTS · SWISS FRANC STRAIGHTS · YEN STRAIGHTS · OTHER STRAIGHTS · DEUTSCHE MARK STRAIGHTS · FLOATING RATE NOTES · CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

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CURRENCIES AND MONEY

French Emu call helps the dollar

MARKETS REPORT

By Simon Kuper

The dollar surged late yesterday on the prospect of a large number of countries joining the start of European monetary union.

The dollar *rose after the London close* when Mr Philippe Seguin, speaker of the French National Assembly, said the European Union should allow "the *maximum* number of countries" to join Emu. The EU should not enforce niggling fiscal targets, said Mr Seguin, tipped as the possible new prime minister if the ruling French centre-right wins the election run-off on Sunday. The centre-right suffered a surprise defeat to the socialists in last Sunday's first round, prompting Mr Alain Juppé, prime minister, to resign.

Mr Michael Paulus, vice president and head of sales at Bank of America in New York, said the prospect was growing of a "broad" Emu, which would include Italy, Spain and Portugal.

But the biggest market move by far yesterday was a fall of about 10 per cent in the Czech koruna, after the Czech Republic on Monday released the currency from its peg and let it float.

The dollar had gained little earlier in the day from the French election result, nor from a spectacular surge in US consumer confidence for May to a 28-year high of 127.1. The major currencies were barely moved at yesterday's London close. Mr Robin Aspinall, chief economist at National Australia Bank in London, said: "The French result is the sort of event that can change the history of Europe, but the market response has been relatively muted."

But after the London close the dollar rose to DM1.706 against the D-Mark and Y116.6 against the yen, 1.4 pfennigs and Y1.2 above Friday's close. The franc was at FFr3.377 to the D-Mark late yesterday, down from Friday's FFr3.369. The southern European currencies were hardly moved. The Swiss franc fell after the Swiss National Bank said it was prepared to lower money market rates to weaken the currency.

■ *The French franc initially* fell modestly on the election result, as the socialists had said that they would be unwilling to take austerity measures to equip France for Emu. The Bank of France *was soon seen intervening to* support its currency.

But later the franc recovered against the D-Mark, as the market decided that Emu would probably go ahead but was now more likely to create a weak single currency.

However, some strategists said that the German public and constitutional court would sooner delay Emu than countenance a weak euro. Mr Aspinall said: "I believe that the prospect of Emu happening is a good deal less certain today than it was a few days ago."

■ The Czech koruna dived after being freed from its peg against a dollar and D-Mark basket. It will now shadow the D-Mark. The Czech National Bank was yesterday seen intervening to slow *the currency's fall*.

For weeks the koruna had struggled near the bottom of its old 7.5 per cent band against the basket, pressurised by the slowdown in the Czech economy, the growth in the current account deficit, and a general run on emerging markets currencies that began with the Thai baht. The koruna has *now fallen* 17 per cent since the start of 1997.

The Czech National Bank had raised interest rates sharply last week in a bid to defend the currency. After Monday's change *in* the exchange rate regime rates initially fell, but by late yesterday many rates had returned to Friday's highs.

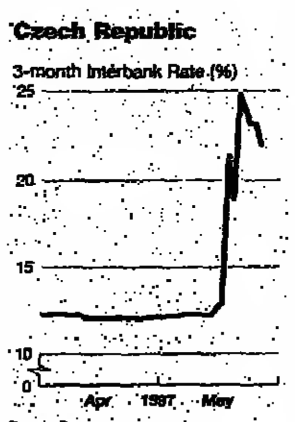
The bank indicated that it expected the currency to settle in a range of about Kr17-Kr19.5 to the D-Mark later this year. But Mr Steve Jennions, emerging *markets* analyst at Credit Agricole Indosuez in London, said 80 per cent of devaluations occurred in two stages. This implied that the *koruna* would fall further, he said.

But Mr Richard Gray, chief emerging markets economist at Bank of America in London, said forex speculators had made less on their defeat of the *koruna* than they had lost in their *failed* attempt to prompt a baht devaluation.

The Slovak koruna fell with its Czech sister yesterday, but pressure on the Polish zloty eased.

Czech Republic

3-month Interbank Rate (%)



Source: Datastream

■ **Pound in New York**

May 27	- Latest -	- Prev. close -
£ spot	1.6330	1.6345
1 mth	1.6319	1.6335
3 mth	1.6300	1.6327
1 yr	1.6222	1.6236

■ **OTHER CURRENCIES**

May 27	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Poland	[illegible]	[illegible]
Russia	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

WORLD INTEREST RATES

MONEY RATES

May 27	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	6.78
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	2.90
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.46	5.59	5.72	6.01	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR Interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 27	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **THREE MONTH EUROMARK FUTURES** (LIFFE) DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **ONE MONTH EUROMARK FUTURES** (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.80	95.82	-0.04	95.82	95.80	1150	7882
Sep	95.80	95.81	-0.04	95.81	95.78	1174	6451
Dec	95.73	95.73	-0.04	95.74	95.73	166	5468
Mar	95.65	95.64	-0.04	95.65	95.64	103	3531

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.11	0.46	0.64	0.09	0.13	0.16
9350	0.03	0.28	0.47	0.28	0.20	0.24
9375	0.01	0.16	0.32	0.49	0.33	0.34

Est. vol. total, Calls 13371 Puts 5361. Previous day's open int., Calls 162361 Puts 93132

POUND SPOT FORWARD AGAINST THE POUND

May 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	(S$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	(R)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	(Won)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	(T$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	(Bt)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Rates for May 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the FT. Owing to technical problems at The WM Company on May 26th, the mid rates and forward rates for the US Dollar on May 27th were incorrect. For correct data please contact the FT Readers Enquiry Service: Fax No. 0171 873 3084. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	-0.0155	169 - 179	2.5185	2.5015	2.5196	-1.1	2.5238	-1.0	2.5407	-0.8	-
New Zealand	(NZ$)	[illegible]	+0.0038	470 - 480	1.4480	1.4469	1.4483	-0.7	1.4507	-0.9	1.4608	-0.9	-
Philippines	(Peso)	[illegible]	+0.0005	550 - 950	26.3950	26.3550	-	-	-	-	-	-	-
Saudi Arabia	(SR)	[illegible]	-	505 - 507	3.7507	3.7505	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	[illegible]	-0.0008	297 - 307	1.4310	1.4278	1.4285	1.4	1.4244	1.6	1.4027	1.9	-
South Africa	(R)	[illegible]	-0.0034	744 - 774	4.4774	4.4730	4.5154	-10.6	4.5929	-10.5	4.8909	-9.3	-
South Korea	(Won)	[illegible]	+0.25	500 - 500	894.500	889.500	-	-	-	-	-	-	-
Taiwan	(T$)	[illegible]	+0.0135	100 - 600	27.8600	27.8100	27.8357	0.0	27.837	0.0	27.8413	0.0	-
Thailand	(Bt)	[illegible]	+0.105	650 - 650	25.8650	25.7500	25.8763	-2.9	26	-2.9	26.57	-2.9	-

† SDR rate per $ for May 23. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May [illegible] Owing to technical problems at The WM Company on May 26th, mid rates claimed by WM/Reuters and published on May 27th were incorrect. For correct data please contact the FT Readers Enquiry Service: Fax No. 0171 873 3084. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 27		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. Owing to technical problems at The WM Company on May 26th, the rates published on May 27th were incorrect. For correct data please contact the FT Readers Enquiry Service. Fax No. 0171 873 3084.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK INTEREST RATES

LONDON MONEY RATES

May 27	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Certs of Tax dep. under £100,000 is [illegible]. Deposits withdrawn for cash [illegible]. [illegible]

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.16	0.09	0.08	0.01	0.17	0.36
9350	0.02	0.02	0.03	0.12	0.35	0.56
9375	0	0	0.01	0.35	0.58	0.79

Est. vol. total, Calls 3686 Puts 1507. Previous day's open int., Calls 177013 Puts 174083

EMS EUROPEAN CURRENCY UNIT RATES

May 27	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	31
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-5
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-5
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-9
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-10
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-10
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-15
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-12
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-12
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-18
NON ERM MEMBERS						
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's vol., [illegible]

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
0.585	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
0.590	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
0.595	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's vol., [illegible]

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9675	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9700	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9725	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9875	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9900	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	8.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00		
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

● Members of London Investment Banking Association

* In administration

NOTICE TO THE BONDHOLDERS OF

US$67,000,000

Lite-On Technology Corporation

0.75 per cent. Convertible Bonds due 2004

("The Company" and The "Bonds" respectively)

Notice of Closed Period and Conversion Price Adjustment

NOTICE IS HEREBY GIVEN to the holders of the outstanding Bonds of Lite-On Technology Corporation (the "Company") that there will be a Bonus Issue of 81,300,000 New Ordinary Shares of NT$10 each (which includes 6,553,000 shares to employees) on the basis of 300 New Ordinary Shares for every 4,000 existing Ordinary Shares held pursuant to the Company's *shareholders' approval obtained at the Annual Stockholders Meeting held on* 6 May 1997.

In accordance with the Terms and Conditions of the Bonds, the Conversion Right of the Bondholders will be suspended from 23 May to 9 June, 1997. The shareholders register will be closed from 5 June to 9 June, 1997 to determine shareholders entitlements to this Bonus Issue.

As a result of this Bonus Issue, the Conversion Price will be adjusted from NT$92 per share to NT$69.37 per share effective from 9 June, 1997.

May 28, 1997, London

By: Citibank, N.A. (Corporate Agency & Trust), Agent Bank **CITIBANK**

NOTICE OF EARLY REDEMPTION

To the Holders of

Investor International Placements Limited

(the "Issuer")

ECU200,000,000

7 1/4 % Secured Exchangeable Bonds due 2001

(the "Bonds")

NOTICE IS HEREBY GIVEN that pursuant to Condition 8(B) of the Bonds all of the outstanding Bonds will be redeemed by the Issuer on 30 June, 1997 (the "*Redemption Date*"). The Bonds will be redeemed at their Principal Amount together with the accrued interest *to the Redemption Date. Payment of principal and interest will be* made against presentation and surrender of the Bonds with all unmatured Coupons appertaining thereto at the specified office of any of the Paying Agents listed below. Payments will be made by an ECU cheque drawn on or by transfer to an ECU account maintained by the payee with a bank in Brussels.

In accordance with Condition 7 of the Bonds, Bondholders can exchange their Bonds for Series B shares in Investor AB any time up to and including 11 June, 1997 by giving notice in accordance with Condition 7. In the event it receives a notice of exchange, the Company intends to exercise its option to pay the Bondholders the *cash equivalent amount.*

Principal Paying Agent

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

Paying Agents

Banque Generale du Luxembourg S.A.
50 Avenue J.F. Kennedy
L-2951 Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts, 35
B-1040 Brussels

Investor International Placements Limited

By: Morgan Guaranty Trust Company of New York
as Principal Paying Agent

Dated: May 28, 1997

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COMMODITIES AND AGRICULTURE

Tea prices strengthen on drought in Kenya

By Gary Mead in London and Kunal Bose in Calcutta

Severe drought in Kenya has slashed its tea crop by almost 40 per cent in the first three months of 1997, according to the latest official figures. First-quarter production is down to around 55m kilos, against 93.5m kilos for the same period last year.

"This is a huge shortfall and we are now anticipating Kenyan production this year to total no more than 225m kilos, against 255m in 1996," said Mr Timothy Carter, broker with Thompson Lloyd & Ewart, London's longest-established tea brokers.

Prices have strengthened as news of the drought's severity has started to filter out. At London auctions for medium quality tea – the type in which Kenya specialises – prices have risen by more than 30 per cent, from £1.12 a kg this time last year to £1.47 a kg at an auction last week.

Kenya exports 90 per cent of its tea, the bulk of it to the UK, Egypt and Pakistan. UK traders said they cannot yet see any signs of retailers increasing prices – though this may change if tight supplies persist.

Buyers are already looking elsewhere, including India, although prices there have also firmed recently. India is the world's largest producer and consumer of tea, although 80 per cent of production stays inside the country. Prices are set to climb even further as the much coveted second crop comes under the hammer in around two weeks.

According to industry officials, the market has remained bullish after the 1997 season opened with negligible stocks and tea production suffered from a prolonged winter in Assam and West Bengal. India produced 54.06m kg of tea in the period to the end of March, against 58.78m kg in the same period in 1996.

The Tea Board said that the "beneficial rain in March" gave a boost to plucking in April when production rose to at least 58m kg from 52.78m kg in the same month a year earlier.

Mr Vijay Dudeja, chairman of brokers Paramount Tea, said there would be a loss of production of between 8m kg and 10m kg this month because of drought in Assam and West Bengal.

"The 1997 Indian crop is likely to fall short of 800m kg, compared with 780m kg last year," he said. "The incremental production will not be enough to take care of the rise in the internal demand for tea, unless we are ready to sacrifice exports. The bullishness in tea prices is underpinned by a tight supply situation."

June start for India pepper futures

By Kunal Bose in Calcutta

Global futures trading on India's international pepper exchange should begin in the middle of next month.

The start comes after delays caused by problems with subscriptions to the clearing house, the Indian Pepper and Spices Trading Association said.

The venture, at Cochin in the Indian state of Kerala, will be the country's first international commodity exchange – although the association has not yet given a precise date for the start of trading.

The annual global trade in pepper is worth about $275m, and the delay at Cochin has caused concern to foreign trading houses. Banks and financial institutions, which will subscribe 45 per cent of the capital of the clearing house, have yet to receive the go-ahead from India's central bank.

The association said 33 of its 144 members operating on the domestic exchange would participate in international futures trading. Foreign trading houses can operate on the Cochin exchange by forming registered companies in India or by creating branch offices. They can also trade as registered non-members through registered members.

● Vietnam's black pepper market has been at a near standstill this week, with buyers looking elsewhere for supplies as the end of the harvest season approaches, dealers in Ho Chi Minh City said. Prices had climbed to $3,000-$3,100 a tonne, from $2,500 in early January.

"Farmers have sold practically all their pepper and exporters don't have much left either," one dealer said. "But recent price volatility has caused some exporters to delay shipments."

Coffee rally continues

MARKETS REPORT

By Gary Mead and Robert Corzine

The coffee price rally took off again yesterday, with prices in New York pushed to a new peak.

Strong interest in the arabica futures traded on the Coffee, Sugar and Cocoa Exchange helped the July contract to a record 269.50 cents a pound in early trading. It later retreated to 267.30 cents a pound, up 10.35 cents on Monday.

Trader said heavy buying interest was behind the rally. "There are a lack of sellers in this market," said one. "Nothing is stopping it right now."

A volatile mixture of tight supply, low stocks and fear of frost in Brazil has been behind the rises on the futures exchanges which drive world coffee prices.

On the London International Financial Futures Exchange, robusta coffee followed in New York's wake, with the July contract closing up $15 at $2,101 a tonne, having peaked earlier in the day at $2,102.

The markets are keeping an eye on Brazilian weather forecasts, though no freeze is forecast for this week.

Oil prices lost mnch of their recent gains as a bout of weakness sent the price of Brent Blend for July delivery, the international bellwether, plummeting by about a dollar. In late London trading Brent was quoted at $19.25 a barrel, compared with its close before the long US and UK holiday weekend of $20.25.

Although the downward move was sudden, traders said volumes were low. The fall followed steady gains over the past two weeks, fuelled in part by speculative funds flowing into long positions in the futures markets.

Traders could give no single overriding reason for yesterday's fall, although the market may have been undermined in part by reports of several refineries in western Europe cutting production runs. The recent crude price rise has hit Asian and European refiners particularly hard.

The market is waiting for inventory statistics from the US, due later today and tomorrow, for clues to the next price move.

On the London Metal Exchange three-month nickel fell $229 to $7,301 a tonne during afternoon "kerb" trading. Dealers suggested the next technical barrier was $7,110, the low point reached on April 14. Three-month copper finished $13 lower at $2,507, while other metals hovered around their opening prices.

Shanghai exchange weathers the storm

The Shanghai Metal Exchange, China's largest market for non-ferrous metals is five years old today, something of an achievement in a country where officialdom is instinctively wary of the futures industry and other fledgling exchanges have withered away.

The exchange has weathered not only the Sumitomo-induced collapse of the copper market and halting growth in domestic demand for metals but also the frequent interventions of the Chinese government.

In the couple of years after its launch in 1992, Shanghai's metal markets were popular with speculators and investors arbitrage-trading against contracts on the London Metal Exchange. But Beijing soon imposed strict regulations restricting speculative trade.

Total exchange volume last year was little more than a third of what it was in 1994. The SHME posted trading volume of 11m tonnes of metals valued at Yn230bn ($27.7bn) in 1996.

Other provincial commodities markets have disappeared altogether. There were once 30 futures exchanges in China, but the number has fallen to 14, as some financial and commodity contracts have been suspended by the authorities and disreputable exchanges have been closed.

Metals exchanges still operate in cities all over China – Shenzhen, Chongqing, Beijing, Tianjin, Chengdu, Guangdong and Shenyang – but the head of an international metals trading firm in Shanghai says: "The only market we watch is Shanghai, the others are mostly tiny and always unpredictable. Shanghai is the only place you can begin to analyse logically."

China's exchanges still make markets in a number of obscure soft commodities – snch as peanut kernels, mung beans, Tianjin red beans, Shenyang barley and plywood – but trade in these contracts tends to be thin, if it continues at all. Scandals and speculation have been seen off other contracts.

Sugar futures were suspended last year after the authorities became concerned about the escalating price for sugar, driven by the soaring futures price.

Small, provincial commodities markets seem to offer a tempting playground to the ambitious fraudster. Earlier this year it emerged that an enterprising investor had attempted to corner the green bean futures market on the Zhengzhou Commodity Exchange in central China by using several false names. Less than a month later, another trader was acolded for faking green bean trading reports.

Mr You Niandong, adviser to an agricultural produce company in Yunnan, southwest China, says traders often "gamble" on contracts such as mung beans. "On these small contracts, it is easy to push up the price," he says.

Speculation, or "stir-frying" as it is disparagingly known in China, has given the futures markets a bad name in government circles.

For the China Securities Regulatory Commission, the watchword in 1997 is risk control. The markets' regulator is planning a database linking the 14 futures exchanges to monitor trading and price movements.

Beijing has also issued stern warnings in the official media, suggesting an impending crackdown on speculative brokerages.

Last week, the China Daily observed: "Many illegitimate brokers seriously harm legal broking activities, resulting in chaos in the industry. Swindling ... is frequent."

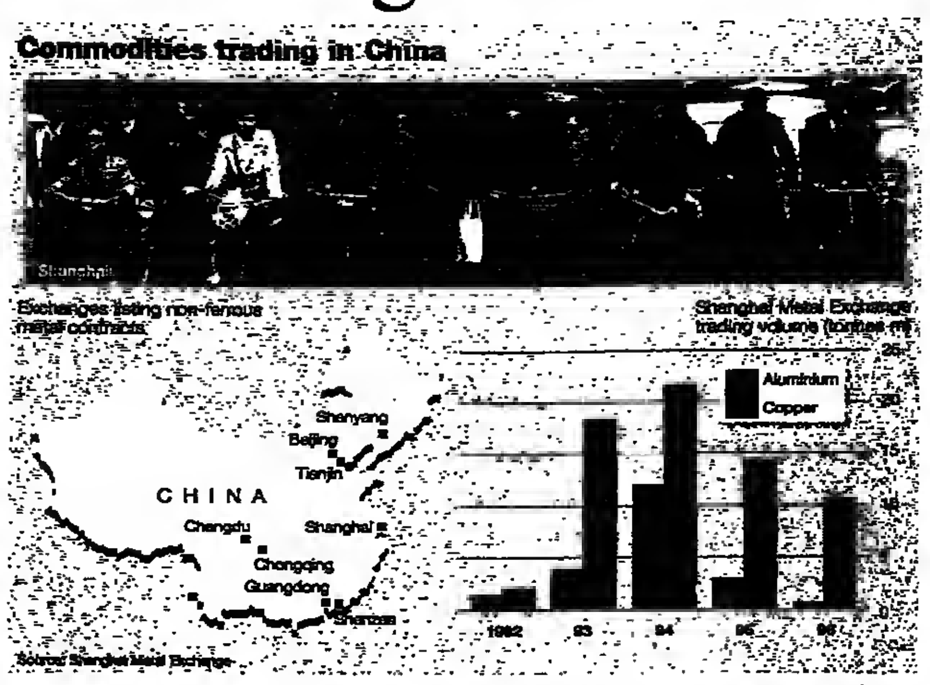
The Chinese leadership is clearly keen to keep tight control of its youthful markets and Mr Tian Jiyun, the vice-chairman of the National People's Congress, China's parliament, earlier this year called for the quick enactment of long-delayed laws to govern the securities and futures industries.

Officials at the Shanghai Metals Exchange are also hoping for consolidation: "Within two or three years, it should be possible for China's futures exchanges to merge and reconfigure," they say. "We predict an integrated non-ferrous metals futures market will be formed."

That is certainly what international metals companies are hoping.

"You cannot yet say that Shanghai is a mature metals market," says one trader. "They are going to have to shut down the smaller places and consolidate the business in Shanghai."

James Harding



COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1627.5-28.5	1640-41
Previous	1615-6	1625-6
High/low		1659/1635
AM Official	1634-34.5	1646-47
Kerb close		1635-36
Open int.	268,197	
Total daily turnover	65,988	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1465-75	1490-500
Previous	1465-75	1485-95
High/low		1510/1495
AM Official	1475-76	1500-02
Kerb close		1490-95
Open int.	5,222	
Total daily turnover	715	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	628.5-29.5	637-38
Previous	626.5-7.5	635-6
High/low	630	340/334
AM Official	629.5-30	637-8
Kerb close		633-34
Open int.	36,587	
Total daily turnover	7,207	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7240-50	7350-60
Previous	7455-65	7565-70
High/low		7560/7300
AM Official	7325-30	7440-45
Kerb close		7301-02
Open int.	49,144	
Total daily turnover	13,847	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5665-75	5720-30
Previous	5690-700	5740-50
High/low		5740/5715
AM Official	5670-80	5725-30
Kerb close		5730-35
Open int.	14,885	
Total daily turnover	2,788	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1340-41	1362-63
Previous	1339.5-40.5	1360-61
High/low		1666/1660
AM Official	1346-47	1365-66
Kerb close		1659-60
Open int.	89,382	
Total daily turnover	11,734	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2589.5-91.5	2513-14
Previous	2590.5-2.5	2513-5
High/low	2581/2580	2517/2500
AM Official	2582-83	2509-10
Kerb close		2509-10
Open int.	39,144	
Total daily turnover	137,327	

■ LME AM Official £/$ rate: 1.6315
LME Closing £/$ rate: 1.6295

Spot: 1.6292 3 mths: 1.6263 6 mths: 1.6237 9 mths: 1.6211

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	118.10	-0.45	118.60	117.70	413	798
Jun	118.40	-0.40	118.50	117.70	139	3,546
Jul	118.40	-0.35	118.60	117.50	4,772	34,150
Aug	115.85	-0.30	118.00	115.30	169	1,841
Sep	114.00	-0.15	114.15	113.10	1,496	6,602
Oct	112.20	-0.05	111.80	111.80	1	1,069
Total					8,232	80,494

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	343.70-344.20		
Opening	342.70-343.00		
Morning fix	343.55	210.058	485.024
Afternoon fix	343.65	210.600	487.193
Day's High	344.35/344.65		
Day's Low	342.70-343.00		
Previous close	342.70-343.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.84 6 months 4.78
2 months ....4.83 12 months 4.61
3 months 4.82

Silver Fix	p/troy oz.	US cts equiv.
Spot	290.90	474.75
3 months	295.05	480.70
6 months	299.30	486.70
1 year	308.25	499.80

Gold Coins	$ price	£ equiv.
Krugerrand	342-344	210-211
Maple Leaf	-	-
New Sovereign	80-83	49-51

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	344.5	+1.7	-	-	1	-
Jun	344.7	+1.6	345.3	343.1	18,189	41,589
Aug	347.1	+1.5	347.8	345.8	5,126	35,644
Oct	349.8	+1.5	350.3	349.2	24	6,981
Dec	352.6	+1.5	353.4	352.0	1,601	23,450
Feb	355.4	+1.6	355.6	355.1	15	6,840
Total					25,057	156,778

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	397.0	+8.6	401.0	388.1	1,828	13,932
Oct	393.5	+8.1	397.5	388.5	123	4,620
Jan	393.5	+5.1	388.5	388.5	8	1,218
Apr	395.0	+4.1	-	-	1	16
Total					1,857	19,792

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	177.00	+3.80	-	-	-	1
Jun	174.50	+3.80	175.70	173.00	1,211	3,790
Sep	170.00	+2.30	171.50	168.00	911	5,660
Dec	167.50	-0.20	-	-	82	435
Total					2,127	9,981

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	472.2	+1.1	472.0	471.5	49	54
Jul	474.8	+1.0	476.0	472.5	11,768	56,989
Sep	479.7	+1.0	481.0	477.0	340	6,517
Dec	486.9	+1.0	489.0	485.0	190	7,330
Jan	489.2	+1.0	-	-	-	17
Mar	494.5	+1.0	-	-	9	7,975
Total					12,360	89,675

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	20.89	-0.74	21.57	20.65	36,950	112k
Aug	20.95	-0.71	21.67	20.75	18,333	47,587
Sep	20.97	-0.59	21.48	20.65	7,029	30,395
Oct	20.83	-0.60	21.33	20.70	2,424	18,242
Nov	20.75	-0.55	21.00	20.60	1,366	16,701
Dec	20.61	-0.56	21.00	20.50	3,034	37,000
Total					81,480	408,088

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	19.25	-0.75	19.88	19.12	19,499	72,301
Aug	19.37	-0.63	19.90	19.21	7,793	37,876
Sep	19.43	-0.58	19.89	19.28	1,278	11,173
Oct	19.44	-0.57	19.92	19.44	606	8,427
Nov	19.50	-0.48	19.91	19.50	203	6,027
Dec	19.42	-0.51	19.87	19.40	459	12,270
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	55.80	-1.72	57.52	55.00	9,332	18,063
Jul	55.65	-1.83	57.15	54.90	7,516	37,659
Aug	56.10	-1.78	57.50	55.50	1,110	17,906
Sep	56.85	-1.63	58.20	56.30	1,304	9,261
Oct	57.55	-1.53	58.90	57.00	111	8,054
Nov	58.20	-1.53	59.50	58.00	450	7,569
Total					28,535	132,985

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	172.00	-5.75	176.25	171.75	9,083	23,777
Jul	173.00	-5.50	177.00	172.75	3,608	13,064
Aug	175.25	-5.00	178.25	175.00	1,170	7,996
Sep	177.00	-5.00	180.00	177.00	140	3,960
Oct	178.75	-5.00	181.75	178.75	772	4,634
Nov	184.50	-	185.00	184.50	-	1,922
Total					15,318	67,422

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.365	+0.080	2.365	2.275	27,773	21,305
Jul	2.370	+0.076	2.370	2.280	10,245	39,740
Aug	2.350	+0.054	2.355	2.280	2,627	20,345
Sep	2.320	+0.039	2.330	2.270	2,315	15,848
Oct	2.325	+0.042	2.330	2.275	2,195	19,620
Dec	2.415	+0.029	2.430	2.360	1,178	7,924
Total					48,159	212,401

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	65.00	-1.92	66.60	64.10	15,855	23,597
Jul	63.15	-1.75	64.50	62.10	10,757	37,459
Aug	61.80	-1.67	63.20	61.30	2,965	10,139
Sep	60.60	-1.75	61.70	60.50	788	4,839
Oct	58.40	-1.90	58.40	58.30	198	3,242
Nov	59.50	-	59.50	59.50	10	1,895
Total					31,636	89,823

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	89.70	-0.55	89.75	89.70	10	1,445
Sep	91.60	-0.70	-	-	-	157
Nov	93.60	-0.70	93.75	93.50	8	3,582
Jan	95.60	-0.70	95.75	95.75	3	1,618
Mar	97.60	-0.70	-	-	-	725
May	98.60	-0.70	-	-	-	380
Total					21	7,810

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	363.50	-11.5	376.00	363.00	12,130	47,703
Sep	371.00	-14.5	384.25	370.00	3,133	14,200
Dec	383.50	-9.75	395.25	383.00	1,724	17,796
Mar	386.00	-8	393.50	384.00	53	1,458
May	378.00	-4	387.00	376.00	-	17
Jul	372.00	-3	378.00	372.00	27	377
Total					17,089	81,582

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	264.25	-6.25	271.00	264.00	28,011	122,159
Sep	254.00	-4.75	259.25	253.50	3,205	30,222
Dec	252.00	-4.5	257.00	251.50	18,712	112,855
Mar	258.25	-4	262.75	258.00	418	12,201
May	262.00	-4.5	265.00	262.00	14	1,234
Jul	265.75	-4.75	270.25	265.50	110	3,018
Total					50,684	285,026

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	88.60	-0.40	-	-	-	29
Nov	90.60	-0.40	-	-	-	1,103
Jan	92.60	-0.15	-	-	-	142
Mar	94.60	-	-	-	-	16
May	96.60	-	-	-	-	-
Total					-	1,290

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	831.25	-4.75	844.50	830.50	39,459	92,845
Aug	790.50	-9.5	802.00	789.00	7,560	24,410
Sep	705.50	-11.75	717.00	705.00	1,498	9,336
Nov	665.00	-12.5	678.00	664.00	14,251	49,515
Jan	668.50	-11.75	680.00	668.00	450	5,234
Mar	673.50	-12.5	684.00	673.00	28	949
Total					63,364	183,733

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	23.29	-0.03	23.51	23.25	8,287	50,816
Aug	23.48	-0.03	23.69	23.47	2,813	14,385
Sep	23.63	-0.05	23.80	23.60	685	8,955
Oct	23.94	-0.06	23.88	23.60	158	8,945
Dec	23.81	-0.08	24.03	23.75	1,412	18,177
Jan	23.98	-0.08	24.11	24.04	207	1,254
Total					13,369	102,847

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	277.1	-3.1	281.5	276.7	19,430	50,385
Aug	258.7	-4.9	264.5	258.5	6,084	15,444
Sep	239.5	-4.7	243.5	239.5	1,139	9,884
Oct	225.0	-4	229.0	224.5	879	10,390
Dec	216.4	-4.3	221.0	216.2	3,767	20,245
Jan	214.0	-3.6	217.8	214.0	212	2,070
Total					32,490	111,031

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	30.0	-	-	-	-	-
Nov	58.0	-	-	-	-	11
Mar	106.5	-	-	-	-	-
Apr	117.5	+3.5	120.0	117.0	79	805
May	129.0	+1.5	-	-	-	-
Total					79	816

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	1282	-4	1290	1290	-	538
Jun	1195	-20	1205	1205	5	480
Jul	1115	-23	1138	1110	102	1,096
Oct	1300	-15	1300	1300	5	531
Jan	1340	-10	-	-	-	57
Apr	1375	-10	-	-	-	-
Total					112	2,682

	Close	Prev
BFI	1290	1291

FUTURES DATA
All futures data supplied by CMS.

Minor metals
Price from Friday. European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 2,150-2,250. Bismuth: min. 99.99%, tonne lots 3.45-3.70 (3.40-3.70). Cadmium: min. 99.95%, cents a pound, 55.00-60.00 (50.00-60.00). Cobalt: MB free market, min. 99.8%, 24.50-25.50 (24.50-25.75); min. 99.3%, 21.25-22.00 (21.80-22.50). Mercury: min. 99.99%, $ per 76 lb flask, 158-168. Molybdenum: drummed molybdic oxide, 4.60-4.70 (4.45-4.60). Selenium: min 99.5%, 2.30-2.60 (2.35-2.90). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. Vanadium: min. 98%, CIF, 3.75-3.83. Uranium: Nuexco unrestricted exchange value, 11.25 (11.50).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	999	-5	-	-	-	21
Jul	1019	-5	1023	1014	940	28,188
Sep	1037	-4	1040	1034	126	15,674
Dec	1031	-4	1035	1027	334	28,712
Mar	1041	-5	1045	1040	200	31,816
May	1053	-4	1055	1052	80	16,145
Total					1,749	141,836

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1452	-9	1462	1444	4,198	31,557
Sep	1481	-10	1489	1474	589	13,888
Dec	1512	-12	1515	1510	138	18,412
Mar	1536	-7	1542	1536	78	20,984
May	1560	-7	-	1569	10	8,531
Jul	1580	-7	1575	1575	20	522
Total					5,033	95,029

■ COCOA (ICCO) (SDR's/tonne)

May 23	Price	Prev. day
Daily	1137.76	1140.82

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2005	-1	2005	1995	33	281
Jul	2102	+18	2102	2065	2,836	25,030
Sep	2124	+26	2125	2078	1,605	17,425
Nov	2131	+26	2129	2085	236	6,864
Jan	2111	+26	2064	2065	43	2,603
Mar	2086	+26	-	-	-	343
Total					4,756	52,572

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	274.30	+17.45	275.00	255.40	3,884	14,584
Sep	237.50	+11.45	239.50	224.75	1,291	7,615
Dec	201.95	+5.75	202.20	195.00	533	4,932
Mar	186.65	+3.90	187.00	182.75	204	2,036
May	178.00	+0.30	178.00	178.00	35	422
Jul	172.00	+8.00	172.00	169.00	20	143
Total					5,970	29,889

■ COFFEE (ICO) (US cents/pound)

May 23		Prev. day
Comp. daily	n/a	187.56
15 day average	n/a	175.63

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	320.2	-0.5	321.0	320.1	2,532	12,594
Oct	309.1	-1.2	310.2	309.4	310	6,380
Dec	306.6	-0.5	307.0	307.0	27	1,827
Mar	306.7	-1.2	307.5	307.2	27	1,584
May	306.6	+0.3	307.4	307.4	10	899
Aug	306.5	+0.2	307.3	307.0	240	459
Total						23,778

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.16	+0.05	11.17	11.04	4,225	74,845
Oct	10.94	+0.03	10.94	10.84	1,224	44,873
Mar	10.89	+0.04	10.90	10.81	1,092	25,295
May	10.50	+0.05	10.80	10.74	333	6,265
Jul	10.73	+0.06	10.70	10.70	105	2,691
Oct	10.64	+0.06	10.51	10.51	4	560
Total					6,980	155,084

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.97	+0.56	73.00	72.30	1,677	36,260
Oct	74.45	+0.62	74.55	74.00	265	4,017
Dec	75.13	+0.49	75.20	74.65	870	25,540
Mar	76.40	+0.50	76.40	76.00	176	3,738
May	77.15	+0.55	77.00	77.00	45	969
Jul	77.45	+0.40	77.45	77.15	21	340
Total					3,105	73,040

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	79.85	-1.75	81.60	79.60	680	16,092
Sep	82.20	-1.55	83.80	82.00	156	7,164
Nov	84.75	-1.30	86.00	84.50	38	3,468
Jan	87.25	-1.50	88.75	87.25	45	1,626
Mar	89.75	-1.25	91.00	90.00	23	1,047
May	92.00	-1.25	92.50	92.00	13	273
Total					976	28,711

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 27	May 23	month ago	year ago
1990.7	2015.5	1968.4	2126.7

■ CRB Futures (Base: 1967 = 100)

May 23	May 22	month ago	year ago
251.31	251.93		

■ GSCI Spot (Base: 1970 = 100)

May 23	May 22	month ago	year ago
200.75	200.92	193.19	210.85

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,825	to	754,125
Aluminium alloy	-440	to	81,980
Copper	-650	to	137,035
Lead	-250	to	117,625
Nickel	-312	to	50,070
Zinc	-2,775	to	425,725
Tin	+40	to	11,135

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	64.900	-0.5	65.225	64.550	3,287	28,507
Aug	65.275	-0.3	65.525	64.850	2,819	39,684
Oct	68.775	-0.3	68.900	68.425	1,048	16,869
Dec	71.250	-0.35	71.550	71.050	1,061	8,861
Feb	71.475	-0.075	71.600	71.375	411	5,005
Apr	73.250	-0.125	73.375	73.150	144	1,749
Total					8,880	101,864

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	81.200	+0.55	81.725	80.350	2,826	10,764
Jul	81.850	+0.525	82.375	80.800	2,764	10,278
Aug	79.850	+0.825	80.400	78.450	1,475	7,424
Oct	71.925	+0.45	72.700	71.100	719	5,670
Dec	69.725	+0.325	70.100	68.850	492	3,602
Feb	69.000	+0.1	69.250	68.550	100	1,629
Total					8,534	40,543

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	91.000	-	92.000	90.800	113	41
Jul	91.900	-0.6	92.975	91.650	1,916	6,373
Aug	91.025	+0.125	91.600	90.450	486	1,751
Feb	77.500	-0.15	77.500	77.000	70	404
Mar	78.400	-0.95	77.125	77.125	1	9
Total					2,586	8,584

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	125	143	-	10
1600	31	73	5	38
1700	-	29	75	93
■ COPPER (Grade A) LME	**Jun**	**Sep**	**Jun**	**Sep**
2400	178	141	-	67
2500	86	90	8	114
2600	24	53	47	176
■ COFFEE LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
2000	153	283	51	158
2050	123	262	71	188
2100	97	246	95	222
■ COCOA LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
1000	34	72	15	35
1025	21	58	27	46
1050	11	48	42	59
■ BRENT CRUDE IPE	**Jun**	**Jul**	**Jun**	**Jul**
1900	61	-	37	-
1950	35	73	-	88
2000	22	51	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

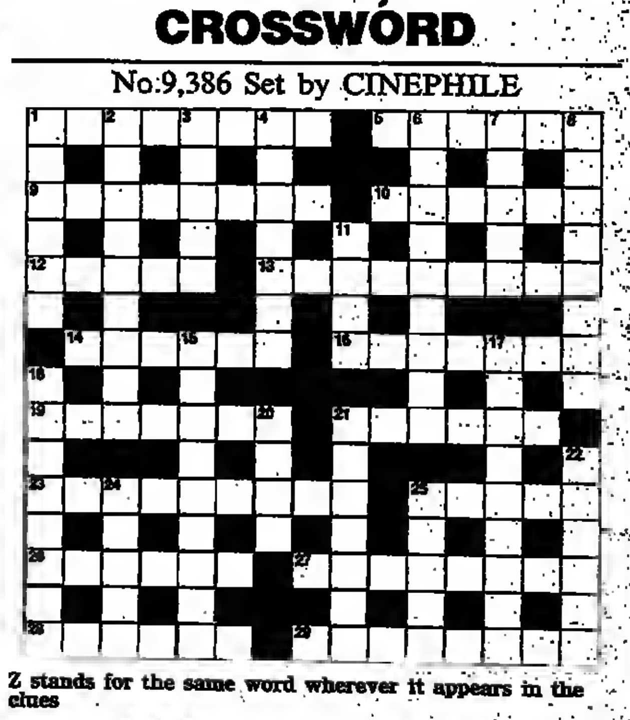
Dubai	$18.66-8.80	-0.435
Brent Blend (dated)	$19.27-9.30	-0.935
Brent Blend (Jul)	$19.24-9.27	-0.745
W.T.I.	$20.89-0.91z	-0.750
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$217-218	-5
Gas Oil	$173-175	-7
Heavy Fuel Oil	$78-80	-1
Naphtha	$164-167	-4
Jet fuel	$190-192	-5.5
Diesel	$179-180	-7.5
■ NATURAL GAS (Pence/therm)		
Bacton (Jun)	11.2-11.4	-0.2
Petroleum Argus. Tel. London (0171) 359 8792		
IPE (Jun)	11.420	-0.030
■ OTHER		
Gold (per troy oz)♣	$343.95	+1.00
Silver (per troy oz)♣	475.00c	
Platinum (per troy oz.)	$398.00	+11.00
Palladium (per troy oz.)	$177.50	+7.10
Copper	125.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.16r	+0.02
Tin (New York)	287.5	-2.0
Cattle (live weight)	91.37p	-1.07*
Sheep (live weight)	129.94p	-1.35*
Pigs (live weight)†	98.52p	-7.11*
Lon. day sugar (raw)	$271.70	+0.90
Lon. day sugar (wte)	$326.90	+0.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	72.50p	
Rubber (Jul)♥	72.50p	
Rubber (KL RSS No1)	282.0x	+2.0
Coconut Oil (Phil)§	670.0y	+10.0
Palm Oil (Malay.)§	540.0w	-10.0
Copra (Phil)§	$425.0y	
Soyabeans (US)	214.5	-1.0
Cotton Outlook'A' index	79.30c	+0.05
Wooltops (64s Super)	410p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jun y May/Jun♥ z Jul London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,280 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,386 Set by CINEPHILE



Z stands for the same word wherever it appears in the clues

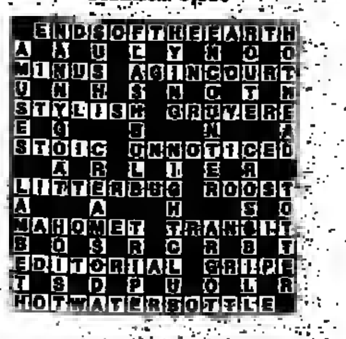
ACROSS

1 Southern duck, once the solver's, becomes furtive (8)
5 A woven fabric whenever one likes? (2,4)
9 Clue for "dray", out of which to keep developers? (4,4)
10 A cross on a T works like a charm (6)
12 The man in red? (5)
13 Scheme acquiring gold from the cinema (9)
14 Z initially frozen stiff (5)
16 Enforcer of tribute to former Thespian (7)
19 Tell what happened when the voting was close (7)
21 Weep about the woman getting the fruit (6)
23 I'm back with a divine old flame who's in the retail trade (9)
25 Only F turned to Z (2,3)
26 Hill relieved by Z (6)
27 Runner, a Catholic, takes one on with force (8)
28 Write your name again and call it quits (6)
29 Wales, a land with little time for a riparian dweller (5,3)

DOWN

1 All right then, weep over link-up (2,2,2)
2 Odd three hundred in tree – very odd (9)
3 Hen Z? (5)
4 For writing a stiff note to the vet? (4,3)
6 Z when rage was corrosive? (9)
7 Eyot has a tenant (5)
8 Of books: take a small one from its room and replace with a Lawrence (8)
11 Z, the last one (4)
15 Slops and fish – very hard on one (9)
17 Comparatively economical with bits of the truth, if a row follows (9)
18 He can put one in the ring or higher (8)
20 The enemy of a Z (4)
21 Province with a footballer (7)
22 The ugly duckling sounds like a little seal (6)
24 Game that's a fiddle from the bottom upwards (5)
25 Tender? Keep hold or worse may follow (5)

Solution 9,385



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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

The Financial Times plans to publish a Survey on

Argentina

on Tuesday, July 1

For further information, please contact:

Michael Geach in New York

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or Selina Llorente in Argentina

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LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
[illegible]						

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 4249495335

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227601

Asian Master Fund (u) (x)

23 avenue de la Liberte, L-1931, Lux 00 352 2954 941

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

ACM Global Investment - Contd.

Credit Suisse Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Global Investment

[illegible]

OFFSHORE INSURANCES

[illegible]

OFFSHORE

[illegible]

هكذا من الأجل

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CHEMICALS

CHEMICALS - Cont.

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DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

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GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

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INVESTMENT TRUSTS - Cont.

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TRANSPORT

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AMERICANS

INVESTMENT COMPANIES

WATER

AIM

OIL, INTEGRATED

CANADIANS

OTHER FINANCIAL

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		225		228½	220¼	1,915	3.0	♦
Barlow		667	+2	727	536	1,300	2.3	12.9
Gold Flds Prop R	†	134½		171½	120	13.7	6.6	10.0
SA Brews		£17½	+½	£19½	£13¾	5,171	2.2	♦
Standard Bank		£28½	-½	£29¾	£27	3,409	1.5	25.4
Tiger Oats	†	1034	-2	1080	770	1,046	1.9	19.1
Tongaat-Hulett		758	+4	842	676¼	733.9	2.6	♦

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Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' trends.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
i Rights issue pending
q Earnings based on preliminary figures.
... includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on ... official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a ...

FID (Foreign Income Dividend)
P Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

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MEDIA

PHARMACEUTICALS

LONDON STOCK EXCHANGE

Footsie hitches a lift from financial stocks

MARKET REPORT

By Philip Coggan
Markets Editor

The FTSE 100 index looked, briefly, set to record an all-time closing high yesterday, until a weak start on Wall Street caused shares to come off their best.

By mid-morning, the leading index had risen 30.6 to 4,692.4, just shy of the 4,693.9 mark at which the market closed on May 16 (the intra-day high, recorded on the same day, was 4,723.7).

Last Friday's record close on Wall Street and a firm performance on continental European markets on Monday helped to bolster early sentiment. There was little in the way of domestic economic or corporate news, save for some poorly received figures from EMI, and there was a slightly subdued air to proceedings after the long weekend.

The market's rise was not that broadly-based, however, with 49 Footsie stocks falling and 43 rising on the day. Leading the pack was the financial sector, with optimism about the Halifax flotation feeding through to the banks and a similar feeling about Norwich Union helping insurance stocks.

Mr Robert Buckland, UK equity strategist at HSBC James Capel, said the flotations would be a big feature of the next few weeks. "Halifax and Norwich Union will together make up 2 per cent of the All-Share," he pointed out.

Later on, figures from the US showing that consumer confidence was at its highest level for 28 years, caused shares to fall on Wall Street, as fears revived that interest rates would need to be raised to head off inflationary pressures. An early decline in the Dow Jones Industrial Average, which was 22 points lower by the time London closed, caused Footsie to shed part of its earlier gains.

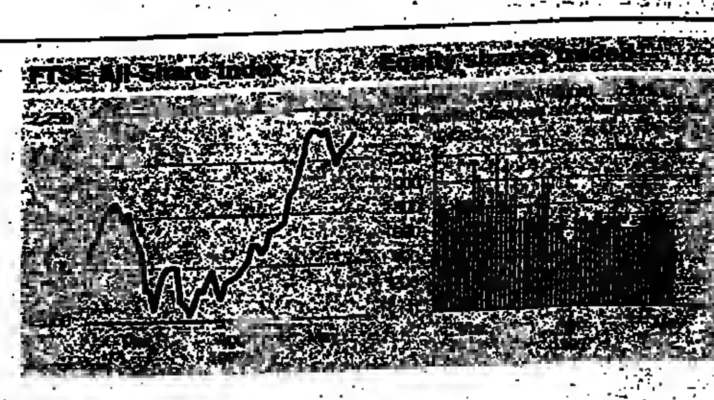
The leading index closed up 19.8 at 4,681.6; but there were much smaller gains for the other benchmarks. The FTSE 250 index added just 1.3 to reach 4,508.0, while the SmallCap inched up 0.4 to 2,300.2. The post-election rally has tended to be focused on the larger stocks.

The US economic statistics pushed the yield on the 30-year Treasury bond above 7 per cent during London trading yesterday. That might cause some jitters in the US stock market and should prompt some caution about the prospects for UK equities, according to Mr David McBain, UK strategist at NatWest Securities.

The domestic bond market gave equities no support, with the benchmark 10-year gilt three ticks down on the day. "The gilt market has been soggy in the past two weeks," said HSBC's Mr Buckland. "It has given up around half the gains it made on the decision to give the Bank of England the freedom to set interest rates."

NatWest's Mr McBain said a limiting factor for UK markets could be that the valuation of equities relative to index-linked gilts had risen to levels not seen since 1987.

Volume was subdued, with many traders tempted by the school half-term break to take the holiday-shortened week off. By 6pm, only 607.6m shares had been traded, 52 per cent of which were in non-Footsie stocks.



Indices and ratios

FTSE 100	4681.6	+19.8	FT 30	3002.7	-0.3
FTSE 250	4508.0	+1.3	FTSE Non-Fins p/e	18.81	18.76
FTSE 350	2265.6	+7.9	FTSE100 Fut Jun	4687.0	+16.0
FTSE All-Share	2223.91	+7.21	10 yr Gilt yield	7.26	7.25
FTSE All-Share yield	3.48	3.49	Long gilt/equity yld ratio	2.13	2.09

Best performing sectors

1 Banks: Retail +1.9
2 Oil: Integrated +1.1
3 Pharmaceuticals +1.0
4 Mineral Extraction +0.8
5 Life Assurance +0.8

Worst performing sectors

1 Diversified Inds -1.6
2 Retailers: Food -1.5
3 Tobacco -1.0
4 Transport -0.6
5 Electronic & Elec -0.5

Halifax lifts the banks

By Peter John and Joel Kibazo

Banking shares spearheaded the market's rise ahead of the flotation of the Halifax building society next week.

Reports in the weekend press that suggested Halifax would start to trade at around 700p a share were backed by financial bookmaker IG Index, which was yesterday taking "buy" bets at 705p and "sells" at 715p. IG offered its initial quote on Halifax last Thursday and, over the past three trading days, has seen the bid quote rise almost 7 per cent.

Mr Giles Wilkes of IG said: "It does look as though we are getting both kinds of business at this level." But he added that IG's Alliance & Leicester quotation opened at some 10 percentage points below the float price. Also dealers expect a further surge on flotation and some were arguing Halifax could hit 800p in the short term.

All the Halifax proxies were sharply higher. Lloyds TSB rose 18½ to 636½p, Barclays 32½ to £12.71, Royal Bank of Scotland 16 to 628½p and HSBC 40½ to £18.84½p in the ordinaries.

The squeeze is also having an impact on insurers ahead of the flotation of Norwich Union later in June. Legal & General, seen as the closest equivalent to Norwich, jumped 18 to 481p, the biggest percentage gain in the Footsie.

EMI, one of the world's largest music companies, registered the day's sharpest decline in the FTSE 100, tumbling 48½ to £11.72½p.

The retreat followed the downgrading of current year profit expectations after the company posted final figures for the year to March 1997.

Profits (before exceptionals) improved 3.6 per cent to £380.8m but analysts downgraded current year estimates by around £14m to between £400m and £410m to take account of the "higher than expected currency hit".

Plans for the group to return about £520m to shareholders in a buy-back did little to improve sentiment towards the stock, although one trader said the news had prevented a steeper slide.

Media conglomerate Pearson shed 4½ to 717½p. The group has been the subject of intense bid speculation for the best part of 18 months and one broker suggested a break-up bid for the group is likely to be north of £10 a share. However, several fund managers think that is an optimistic figure, believing a predator could win the day with an offer of between 800p and 900p a share.

Shell Transport bucked an ostensibly discouraging environment to hit a new intraday and closing high. Oil prices were falling sharply, Shell is said to have cut crude throughput at its Pernis refinery in Rotterdam by about 14 per cent because of poor operating margins, and one bearish broker reiterated its "sell" stance yesterday.

Nevertheless, the shares jumped 20 to £12.09½p.

On the plus side, the company held the first of two presentations to analysts in the afternoon. And although the meeting ended too late to influence the stock, it added to a sense of fundamental optimism. One analyst said: "There is a genuine feeling that Shell is changing and there is only one way that estimates are going – up."

Enterprise Oil shrugged aside news that one of the directors had been selling shares and added 1½ at 680p.

Rumour-driven Zeneca fell sharply in pre-market trading as news of Roche's $11bn bid for Boehringer Mannheim put paid to any lingering hope that the Swiss company might be keen on buying the UK pharmaceuticals group.

However, the speculation had become increasingly low-grade and the shares recovered to end the day only 2 off at £18.76½p.

The other pharmaceuticals leaders were helped by Friday's record close on Wall Street. SmithKline Beecham lifted 21¼ to £10.65½p and Glaxo Wellcome gained 11 to £12.02½p, its rise softened by recent talk that US investors have been net sellers.

National Power was off 10 in early dealing after Merrill Lynch cut its current year profit forecast for the company to £790m from £830m previously.

The downgrade followed National Power's full-year figures last week, which were below analysts' forecasts. However, the shares recovered to close just 3 lower at 536p.

Leading defence-related issues were hit by first round results in the French general election. The fear is that a victory for the left would threaten privatisation of Thomson-CSF, the defence electronics giant.

UK defence specialists had expected a privatised Thomson to link up with a UK group, helping consolidate Europe's defence sector.

Shares in British Aerospace shed 16 to £12.39½p, while those of GEC eased 4 to 354p. Problems with the Trent 700 engine saw Rolls-Royce fall 8 to 242½p. Smiths Industries closed 3 off at 763½p as it hosted an analysts' visit to its plant in Cheltenham.

BBA Group improved 8½ to 329½p, following a Merrill Lynch recommendation. The broker upgraded its recommendation from "neutral" to "accumulate" saying, "We believe BBA can sustain earnings per share growth of 15 per cent per annum."

Among football stocks, a dark cloud descended over several issues in the sector. Sheffield United, which failed to gain promotion to the English Premier League at the weekend, saw its shares slide 20 to 45p, while those of Southampton Leisure, owner of Southampton football club, surrendered 11 to 90½p following news of the resignation of the club's manager.

The poor sentiment in several football-related stocks spread to Newcastle United. The shares gave up 2½ to 114p. However, NatWest Securities, the company broker, yesterday urged investors to "add" to holdings.

It believes that "significant upside across all major revenue streams and a quality of earnings which sets Newcastle apart from the majority of its peers supports a positive investment case".

In retailers, Boots was a talking point as reports that the group may be planning to return £400m of cash to shareholders did the rounds.

The speculation followed a weekend press report and rumours in the market suggested the company may move quickly in an attempt to pre-empt likely tax changes. Boots rose 12 to 725p.

Talk that British Airways is planning an acquisition in Italy was dismissed by leading analysts. However, the shares still managed a 14¼ decline to 711p on the rumours. Volume was 3.4m.

Flextech, the cable and satellite television company, tumbled 26 to 560½p as one newspaper report highlighted tension between the franchise operators and programme suppliers.

FT 30 INDEX

	May 27	May 23	May 22	May 21	May 20	Yr ago	High	Low
FT 30	3002.7	3003.0	2997.5	2997.7	2961.6	2793.8	3018.6	2668.8
Ord. div. yield	3.63	3.66	3.67	3.68	3.71	3.96	4.22	3.62
P/E ratio net	18.14	18.13	18.10	18.05	17.91	16.22	18.33	15.80
P/E ratio nil	17.98	17.95	17.92	17.87	17.73	16.01	18.14	15.71

FT 30 since compilation: high 3018.6 13/05/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3007.5	3009.7	3012.2	3010.5	3004.2	3007.5	3005.8	3005.1	3000.9	3013.3	2998.1

	May 27	May 23	May 22	May 21	May 20	Yr ago
SEAQ bargains	45,881	45,093	45,222	48,259	46,559	33,835
Equity turnover (£m)†	-	NA	NA	2761.7	2473.9	1308.2
Equity bargains†	-	NA	NA	40,744	38,827	38,912
Shares traded (m)†	-	NA	NA	689.1	647.1	474.3

†Excluding intra-market and overseas turnover but including Crest turnover.
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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	817	Total Highs	122	Total contracts	25,486
Total Falls	648	Total Lows	51	Calls	15,190
Same	1,612			Puts	10,296

May 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4678.0	4687.0	+18.0	4709.0	4678.0	7384	68530
Sep	4726.0	4719.5	+13.5	4737.5	4716.5	306	5990
Dec		4768.0	+16.0			0	522

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4519.0	+2.0			0	5963
Sep		4570.5	+2.0			0	300

FTSE 100 INDEX OPTION (LIFFE) (*4680) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 26	Day's chge %	May 23	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	1880.25	+0.4	1683.37	2308.83	2.18	-	2276.95	1496.80
Regional indices								
Africa (14)	1751.14	0.0	1751.43	2080.31	3.96	27.83	3144.05	1724.86
Australasia (6)	1763.04	+1.0	1745.25	2575.40	2.68	19.56	2877.22	1746.35
North America (11)	1486.40	+0.4	1480.02	2046.30	0.87	61.21	2126.45	1385.84

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All Index and market, except ASDA, shown in pence.

[illegible]

General Motors Corporation

Notice is hereby given that resulting from the corporation's declaration of a dividend of $0.50 (gross) per share of the common stock of this corporation payable on 10 June 1997 there will become due in respect of the bearer depositary receipts a gross distribution of 2.50 cents per unit. The depositary will give further notice of the sterling equivalent of the net distribution per unit payable on and after the 17th June 1997. All claims must be accompanied by a completed claim form and USA tax declaration obtainable from the depositary. Claimants other than UK banks or members of the Stock Exchange must lodge their bearer deposit receipts for marking. Postal claims cannot be accepted.

Barclays Bank PLC
BGSS London Counter Services.
8 Angel Court, London EC2R 7HT

CONTRACTS & TENDERS

HZ - HRVATSKE ZELJEZNICE - CROATIAN RAILWAYS

Mihanoviceva 12
Zagreb, Croatia

Considering the Statutes on Goods and Services Purchase and Contract Award Procedures (National gazette no. 33/97 of March 28, 1997) HZ-Hrvatske zeljeznice (Croatian Railways) are inviting

INTERNATIONAL TENDERS FOR DELIVERY AND ASSEMBLY OF THE GROUND-TO-TRAIN RADIO SYSTEM ALONG "LIKA" RAILWAY LINE

I The purchase objects are:

Estimated equipment for the ground-to-train radio system

1. Radio dispatching center	pcs	5
2. Base station	pcs	54
3. Tandem Distributor	pcs	5
4. Base station box	pcs	54
5. Antenna mast	pcs	54
6. Antenna cable	km	1,7
7. Telecommunications cable	km	5,4
8. Power supply cable	km	49
9. Antenna	pcs	108
10. Mobile equipment	pcs	70
11. Leakly coaxial cable	km	5,6

The ground-train radio exchanges are located in Ostarije, Gospic, Knin and Split.

II Tenders are invited from companies with successful quality insurance system provided with ISO 9000 standards' certificate issued by authorised independent institution.

III The biddiog companies should be able to supply credit in 100% amount for designing, necessary measurements, equipment delivery, assembly and setting the system in motion.

IV The tenders should be prepared considering the bidding documentation that can be obtained at HZ - Croatian Railways, HZ - Infrastructures, Department for Signalling and Telecommunications, Trg kralja Tomislava 11 (first floor, room 102), Zagreb, Croatia (phone +385 1 18 31 05, fax: +385 1 18 28 05) with preliminary payment in the amount of 3.600 kn on the giro account no. 30101-601-85044 at Privredna banka Zagreb or 1000 DM on the foreign currency account no. 30101-620-37-7000280-0182800-121474 at the same bank.

V The tender has to contain:

1. Individual and total prices of the equipment and work.
2. Spare equipment and spare parts for two years' maintenance.
3. Tools and instruments for current maintenance, testing and measurements.
4. The bidder's references for delivery and assembly of the tendered equipment to the railway companies members of UIC (International Union of Railways) and to HZ.
5. Spare parts catalogue in Croatian language on floppy discs.
6. Guarantee period for equipment, work and system.
7. Payment and loan conditions.
8. Sections of the ground-to-train radio system accomplishment.

VI The tender with more acceptable loan conditions regarding grace period, interest rate and repayment period will be preferred.

VII The tenders should be sent to the following address:
HZ-HRVATSKE ZELJEZNICE
HZ-INFRASTRUKTURA
Elektrotehnicki poslovi
Trg kralja Tomislava 11/I
10000 Zagreb, Croatia

VIII The tender should be sent in double sealed envelope. Both outside and inside envelopes should have visible sign:
HZ-HRVATSKE ZELJEZNICE
HZ-INFRASTRUKTURA
Elektrotehnicki poslovi
Trg kralja Tomislava 11/I
10000 Zagreb, Croatia

- "NE OTVARATI - DO NOT OPEN - TENDER FOR DELIVERY AND ASSEMBLY OF GROUND-TO-TRAIN RADIO SYSTEM ALONG THE LIKA RAILWAY LINE"
- Along with the inside envelope the outside envelope should contain the bidder's address (for the return of tenders that come with delay)
- The tenders should be written in English or Croatian.

IX Only the tenders received by 11.00 on the 7th July, 1997 will be taken in consideration.

X The opening of the tenders will take place on 7th July, 1997 at 12.00 noon at HZ-Infrastructure headquarters, Zagreb, Trg kralja Tomislava 11, room no. 102.

XI The results of the bidding procedure will be sent to bidders within 30 days.

HZ-HRVATSKE ZELJEZNICE

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 27 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 27 / Frs.)

[illegible]

CZECH REP (May 27 / Koruna)

[illegible]

DENMARK (May 27 / Kr)

[illegible]

FINLAND (May 27 / Mkk)

[illegible]

FRANCE (May 27 / Frs.)

[illegible]

GERMANY (May 27 / Dm.)

[illegible]

GREECE (May 27 / Drachma)

[illegible]

ITALY (May 27 / Lira)

[illegible]

NETHERLANDS (May 27 / Fls.)

[illegible]

NORWAY (May 27 / Kroner)

[illegible]

POLAND (May 27 / Zloty)

[illegible]

PORTUGAL (May 27 / Escudo)

[illegible]

SPAIN (May 27 / Pts.)

[illegible]

SWEDEN (May 27 / Kronor)

[illegible]

SWITZERLAND (May 27 / Frs.)

[illegible]

TURKEY (May 27 / TL Lira)

[illegible]

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PACIFIC

JAPAN (May 27 / Yen)

[illegible]

HONG KONG (May 27 / H.K.$)

[illegible]

INDONESIA (May 27 / Rupiah)

[illegible]

MALAYSIA (May 27 / MYR)

[illegible]

NEW ZEALAND (May 27 / NZ $)

[illegible]

SINGAPORE (May 27 / S$)

[illegible]

AUSTRALIA (May 27 / Aust$)

[illegible]

SOUTH KOREA (May 27 / Won)

[illegible]

TAIWAN (May 27 / TW $)

[illegible]

THAILAND (May 27 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (May 27 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (May 27 / Can $) 4 pm close

[illegible]

MONTREAL (May 27 / Can $) 4 pm close

[illegible]

INDICES

	May 27	May 26	May 23	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	22093.86	22118.06	22118.06 23/5	18237.37 2/1
Australia					
All Ordinaries(1/1/80)	2578.9	2584.8†	2563.9	2584.80 26/5	2352.20 1/4
All Mining(1/1/80)	945.4	947.5	935.4	987.18 24/2	878.40 18/4
Austria					
Credit Aktien(30/12/84)	429.84	430.83	427.74	430.83 26/5	374.40 2/1
Traded Index(2/1/91)	1310.70	1309.12	1290.70	1310.70 27/5	1130.22 9/1
Belgium					
BEL20(1/1/91)	2275.32	2279.04	2267.76	2279.04 26/5	1871.06 2/1
Brazil					
Bovespa(29/12/83)	(u)	10861.0	10754.0	10861.00 26/5	8.00 29/4
Canada					
Metals Minls(1975)	(u)	5604.15	5575.24	5891.75 10/3	4645.96 11/4
Composite(1975)	(u)	6491.10	6421.50	6491.10 26/5	5578.30 14/4
Portfolio§§(4/1/83)	(u)	3300.84	3268.03	3300.84 26/5	2846.02 11/4
Chile					
IGPA Gen(31/12/80)	(u)	5494.80	5491.32	5494.80 26/5	4812.42 2/1
Denmark					
Copenhagen SE(3/1/83)	578.05	580.73	578.36	581.24 21/5	476.14 3/1
Finland					
HEX General(28/12/90)	3094.02	3105.61	3120.08	3120.08 23/5	2483.28 2/1
France					
SBF 250(31/12/90)	1773.77	1758.09	1824.38	1838.29 16/5	1533.19 2/1
CAC 40(31/12/87)	2680.34	2654.74	2762.90	2786.35 21/5	2258.97 2/1
Germany					
FAZ Aktien(31/12/58)	1251.85	1243.68	1230.65	1251.85 27/5	985.21 2/1
Commerzbank(1/12/53)	3666.70	3646.2	3607.1	3666.70 27/5	2878.90 2/1
DAX(30/12/87)	3674.36	3657.88	3602.19	3674.36 27/5	2848.77 2/1
Greece					
Athens SE(31/12/80)	1714.05	(c)	1727.70	1727.70 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	14540.16	14574.64	14331.68	14574.64 26/5	12055.17 3/4
India					
BSE Sens.(1979)	3692.55	3701.65	3706.37	3944.61 4/3	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	658.84	663.19	658.52	712.69 26/2	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3276.65	3266.61	3265.25	3276.65 27/5	2725.97 2/1
Italy					
Banca Comm Ital(1972)	769.19	769.29	775.86	797.71 10/2	642.55 2/1
MIB General(2/1/97)	1158.0	1159.0	1168.0	1187.00 10/2	981.00 2/1
Japan					
Nikkei 225(16/5/49)	19889.89	20043.5	20009.00	20469.75 19/5	17303.65 10/1
Nikkei 300(1/10/82)	287.26	289.26	288.07	293.84 6/5	251.04 27/1
Topix(4/1/68)	1484.45	1494.61	1489.88	1512.83 19/5	1320.82 10/4
2nd Section(4/1/68)	1762.76	1760.47	1758.77	1829.21 6/1	1516.50 15/4
Malaysia					
KLSE Comp.(4/4/86)	1081.88	1081.19	1078.2	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(u)	3986.19	3988.29	3998.32 22/5	3358.49 2/1
Netherland					
CBS TRtn Gen(End 83)	949.7	955.2	943.7	955.20 26/5	738.80 2/1
CBS All Shr(End 83)	549.0	552.2	545.6	552.20 26/5	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2321.52	2311.06	2303.09	2440.21 20/1	2207.48 1/4
Norway					
Oslo SE(Ind)(2/1/83)	1972.82	1972.34	1957.86	1972.82 27/5	1638.03 2/1
Philippines					
Manila Comp(2/1/85)	2718.91	(c)	2598.30	3447.80 3/2	2468.36 20/5
Portugal					
BVL 30(4/1/93)	2868.13	2850.99	2840.42	2906.26 15/5	2165.57 3/1
Singapore					
SES All-S'pore(2/4/75)	497.88	498.13	497.25	573.03 17/2	479.34 29/4
South Africa					
JSE Gold(28/9/78)	1186.5♥	1186.8	1192.1	1588.10 27/2	1181.88 2/5
JSE Ind.(28/9/78)	8319.3♥	8319.6	8312.1	8568.70 6/5	7859.80 2/1
South Korea					
Korea Comp Ex(4/1/80)	723.35	718.99	730.53	732.77 21/5	611.05 7/1
Spain					
Madrid SE(30/12/85)	577.76	570.73	558.90	577.76 27/5	434.54 2/1
Sweden					
Affarsvarlden Gen(1/2/37)	2886.8	2911.0	2906.0	2911.00 26/5	2378.59 2/1
Switzerland					
SMI Index(1/7/88)	5190.0	5198.7	5181.0	5196.70 26/5	3822.80 7/1
SPI General(1/6/87)	3281.39	3284.59	3272.85	3284.88 26/5	2506.22 6/1
Taiwan					
Weighted Pr.(30/6/66)	8123.26	8194.66	8144.39	8681.72 26/4	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	538.84	566.36	581.13	858.97 22/1	557.87 15/5
Turkey					
IMKB Nat 100(1986)	1523.00	1470.0	1467.0	1684.00 21/3	595.00 2/1
WORLD					
MS Capital Intl(1/1/70)	902.4*	906.3	905.8	908.20 26/5	794.50 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2370.09	(c)	2367.8	2370.09 27/5	1993.80 2/1
FTSE E 100(26/6/90)	2030.79	2012.43	2009.27	2030.79 27/5	1582.99 2/1
HSBC JC Drgn(31/12/88)	(u)	410.92	409.44	429.45 20/1	381.54 29/4
ING Bngs Emrg(7/1/92)	177.46	177.35	176.99	181.33 29/2	159.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
May	2637.0	2676.0	+23.0	2680.0	2637.0	26,068	23,966
Jun	2614.5	2653.5	+22.0	2655.0	2612.0	8,435	30,251
DAX							
Jun	3692.5	3674.0	-6.00	3696.5	3658.0	22,258	152,382
Sep	3712.5	3700.5	-5.50	3723.5	3688.5	883	9,584
OMX							
Jun	2302.0	2279.00	-20.00	2304.00	2277.00	3,387	26,248
SOFFEX							
Jun	5190.0	5170.5	-9.3	5213.0	5160.0	8,885	22,922
Jul	-	5172.5	-	-	-	10	1,465

* Sat May 24: Taiwan Weighted Price 8175.70; Korea Comp Ex 725.17. Base values of all indices are 100 except: Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 20 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours Index: May 27 - 3665.43 -3.88. † Correction. ' Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7345.91	7258.13	7290.69	7345.91 (23/5)	6391.69 (11/4)	7345.91 (23/5/97)	41.22 (8/7/32)
Home Bonds	102.26	102.16	102.22	103.63 (18/2)	101.09 (14/4)	109.77 (16/10/93)	54.99 (1/10/81)
Transport	2693.37	2680.69	2662.54	2693.37 (23/5)	2222.07 (2/1)	2693.37 (23/5/97)	13.23 (8/7/32)
Utilities	220.58	219.26	220.11	240.85 (22/1)	208.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7348.79 (7346.70) Low 7210.36 (7210.33) (Theoretical♦) Day's high 7310.06 (7310.06) Low 7242.47 (7242.47) (Actual♦)

Standard and Poors	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	847.03	835.66	839.35	847.03 (23/5)	737.01 (2/1)	847.03 (23/5/97)	4.40 (1/6/32)
Industrials♥	998.55	986.04	991.23	998.55 (23/5)	865.42 (11/4)	998.55 (23/5/97)	3.52 (30/6/32)
Financial	94.65	93.30	93.34	97.26 (10/3)	80.75 (2/1)	97.20 (10/3/97)	7.13 (4/8/74)
NYSE Comp.	440.28	434.66	436.21	440.28 (23/5)	389.47 (11/4)	440.28 (23/5/97)	4.54 (25/4/42)
Amex Comp.	597.94	593.73	592.08	603.63 (10/3)	541.20 (28/4)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1389.72	1372.59	1373.75	1389.72 (23/5)	1201.00 (2/4)	1389.72 (23/5/97)	54.87 (3/10/74)

RATIOS

	May 16	May 9	May 2	Year ago
Dow Jones Ind. Div. Yield	1.71	1.71	1.73	2.17
	May 21	May 14	May 7	Year ago
S & P Ind. Div. yield	1.67	1.69	1.72	1.83
S & P Ind. P/E ratio	23.39	23.89	23.33	22.71

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Westinghse	17,119,600	18⅞	+1⅞
Seagate Tch	11,279,200	40	-2⅛
Philip Mrrs	8,484,400	45⅝	+⅛
AT&T	6,750,200	35⅝	+¾
Cardinal H	5,702,400	57⅞	+4⅞
Wst Digital	5,659,200	52⅞	-4⅛
Gen Elec	5,427,300	61⅞	+⅝
Micron Tech	4,827,600	38⅝	+2
Pepsico	3,739,200	36⅝	+1⅞
Mirage Res	3,027,100	24	-⅜

TRADING ACTIVITY

● Volume (million)

	May 23	May 22	May 21
New York SE	405,714	416,231	527,656
Amex	15,635	17,279	17,436
NASDAQ	546,660	572,059	668,607
NYSE			
Issues Traded	3,309	3,351	3,348
Rises	1,875	1,276	1,423
Falls	618	1,179	1,117
Unchanged	816	896	808
New Highs	206	154	178
New Lows	13	9	8

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	849.40	846.20	-1.55	849.80	843.20	46,146	173,812
Sep	854.00	853.50	-2.85	854.60	852.50	1,026	13,291

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	20110.0	19860.0	-290.0	20190.0	19860.0	19,502	229,009
Sep	20140.0	19860.0	-240.0	20200.0	19880.0	2,469	19,607

Open interest figures for previous day.

Prices supplied by Exel, part of FT Information.

NOTES - Prices are as quoted on the individual exchanges & are mostly last traded prices. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $. (W)Thailand, owing to problems at source no variations are shown in today's FT.

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TOKYO - MOST ACTIVE STOCKS: Tuesday, May 27, 1997

	Stocks Traded	Closing Prices	Change on day
Shinko Electric	14.3m	542	+75
Nippon Steel Cp	7.4m	351	+1
Fujikura	4.9m	992	+14
Furukawa Elect	4.4m	647	+32
Fujitsu	4.4m	1380	+20
Mitsubishi Hvy	4.0m	857	-8
Nippon Credit Bk	3.4m	239	-8
Mitsubishi Plast	3.3m	469	+49
Kanematsu Corp	3.3m	374	+29
Matsushita E Ind	3.2m	2180	+10

4 pm close May 27

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	24¼	AAR x	0.48	1.5	24	292	31⅛	31	61	-⅛
43	33⅛	AMP z	1.04	2.6	32	2303	40⅝	39⅝	40⅛	+½
98¾	78¼	AMR			7	3085	99⅛	97⅞	96⅝	-½
37⅝	31⅛	ASA	1.20	3.8	21	640	32⅛	31¾	31⅞	+⅛
67⅛	49⅝	AbbtL	1.08	1.7	29	7930	64⅞	62⅞	64	
18⅝	14⅛	AbitibiPr	0.40	2.2	0	278	u18¼	17⅞	18⅛	+⅛
19¾	17⅞	ABM Ind	0.40	2.0	18	163	19⅝	19½	19⅝	
28	17¾	Acptncetn			10	28	20⅝	20½	20⅝	+⅛
58⅞	58⅛	ACE Ltd	0.80	1.4	10	932	62¼	61¾	62	-⅛
10¾	10	ACM Gvt In	0.90	0.9	11	372	10¼	10⅛	10⅛	-⅛
7⅝	7	ACM GvOpp	0.63	8.4		239	7½	7⅜	7½	+⅛
9⅞	9¼	ACM Man	0.90	9.2		521	9¾	9⅝	9¾	+¼
10⅞	6¼	Acme Elect				13	6⅞	6⅝	6¾	
26	13	Acme Mills				19	15⅞	15¼	15⅞	
17⅞	14	ACNielsen			31	727	17⅛	16⅞	17⅛	+⅛
37⅛	27¼	Acordia x	0.80	2.2	17	170	36	35½	35⅞	
29⅞	21⅛	Acuson				1184	28⅛	25⅝	25⅞	-⅛
21⅞	18⅛	Adams Expr z	0.60	2.5	1	453	u21⅞	21⅝	21⅞	+⅛
48½	24⅞	AdvMic				13294	42¾	40⅞	42⅞	+1⅞
17⅛	16⅞	Advest Grp	0.03	0.2	12	289	u17¼	16⅝	16⅞	-⅛
14⅝	11⅝	Advo Inc			18	322	14⅛	13¾	13¾	-¼
75⅞	61⅛	Aegon x	1.45	1.9	61	286	u75⅞	74⅞	75¼	+⅛
3⅞	3⅛	Aerflx				256	3⅝	3½	3⅝	
43⅛	33	Aero-V x	0.80	1.9	12	673	42⅝	42¼	42¼	-⅛

[illegible]

- B -

[illegible]

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NYSE PRICES

4 pm close May 27

Continued from previous page

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Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

u-new yearly low. P/E price-earnings ratio. [illegible]. u-new yearly high. x-ex-dividend or ex-rights. yd-yield. z-sales in full.
¢ Dealings suspended.

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AMEX PRICES

4 pm close May 27

[illegible]

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NASDAQ NATIONAL MARKET

4 pm close May 27

[illegible]

- K -

K Swiss	0.08334	70	$13\frac{3}{8}$	$13\frac{3}{8}$	$13\frac{3}{8}$	$+\frac{1}{4}$
Kaman Cp	0.44 24	187	$13\frac{7}{8}$	$13\frac{1}{2}$	$13\frac{1}{2}$	[illegible]
Kelly Sv	0.84 14	182	$28\frac{3}{4}$	$27\frac{3}{4}$	$28\frac{1}{2}$	$-\frac{1}{4}$
Kimball	1.04 14	12	$39\frac{1}{4}$	$38\frac{7}{8}$	$39\frac{1}{16}$	$+\frac{3}{16}$
KLA-Tn		2716548	u$52\frac{1}{8}$	$48\frac{3}{4}$	$51\frac{3}{8}$	+2
Koll A		71	$\frac{1}{8}$	[illegible]	$\frac{1}{8}$	
Komag♣		2110839	$35\frac{1}{8}$	31	$34\frac{13}{16}$	$+3\frac{11}{16}$
Kulicke S		12734	u35	$32\frac{1}{8}$	$34\frac{3}{4}$	$+2\frac{1}{4}$

- R -

Rainbow♣		13 1014	17	$15\frac{7}{8}$	$16\frac{3}{8}$	$+\frac{1}{2}$
Rallye		272	$2\frac{31}{32}$	$2\frac{13}{32}$	$2\frac{15}{16}$	$-\frac{1}{16}$
Raymond	0.25 16	465	$32\frac{1}{8}$	$31\frac{7}{8}$	32	
RCSB Fin	0.60 14	9987	$41\frac{1}{4}$	$40\frac{5}{8}$	$41\frac{1}{8}$	
Read-Rite		43426	$22\frac{1}{2}$	$20\frac{3}{4}$	$21\frac{7}{8}$	+2

- X - Y - Z -

Xilinx♣		3828604	57	$52\frac{7}{8}$	$55\frac{3}{4}$	$+2\frac{7}{8}$
Xircom		21 5881	15	$14\frac{1}{4}$	$14\frac{11}{16}$	$+\frac{5}{16}$
Xonia Corp		2695	$5\frac{1}{8}$	$4\frac{7}{8}$	$4\frac{29}{32}$	$-\frac{7}{32}$
Yellow		2933	$19\frac{3}{4}$	$19\frac{1}{4}$	$19\frac{7}{16}$	$-\frac{5}{16}$
York Rsch		15 305	$7\frac{3}{4}$	$7\frac{1}{2}$	$7\frac{3}{4}$	$+\frac{1}{8}$
ZionsUtah	0.44 17	2439	$31\frac{1}{4}$	36	$30\frac{3}{8}$	$-\frac{5}{8}$

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.25		0	8.25	4.375	Esprit Telecom ADS	US$7.375	+0.125	7500	12.25	5.375
Artwork Systems	US$11		69055	11	9.5	Innogenetics	US$11.5		47494	12.75	10.375
Chemunex	FFr16		0	18	15	Memco Internatl.	US$10.625	+0.375	4000	11.75	8.125
Dr Solomon's ADS	US$21.75	-0.125	9	26.5	16.875	PixTech	US$4.375		9	0.125	4.25

Prices for 27/5/97. Please note that mid prices are now used to calculate highs and lows.

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Dow rises on merger reports

AMERICAS

US blue chips shrugged off early weakness at midsession, helped by a technology stocks rally and by takeover specnlation, *writes Jane Martinson in New York.*

The Dow Jones Industrial Average rose 39.97 to 7385.88 at 1pm, erasing earller losses. Interest rate fears had been blamed for some of tha earlier deterioration. The 30-year benchmark note fell ⅜ to 95, pushing the yield above the psychologically important 7 per cent barrier.

The subsequent rally was led by AT&T as the market reacted favourably to reports thet the telecommunications group was in merger discussions with SBC Communications. AT&T, e Dow component, rose $1½ or 4 per cent to $37⅝, while SBC gained $⅝ or 1.5 per cent to $37⅞.

Mr Eric Miller, chief investment officer at Donaldson Lufkin & Jenrette, said thet the bond market would not depress share prices significantly until the yield went "decisively above the 7 per cent barrier". He predicted further ehort-term gains in the market, chiefly because "the Fed is on hold" after failing to raise interest rates last week.

The technology-driven Nasdaq composite index showed little sensitivity to the interest rate outlook with strong and early gains. It rose 18.82 to 1,408.54. A strong performance last week helped the index beat records last set in January before it suffered a correction. Intel, Microsoft and Dell were among the gainers.

The Russell 2000, the smaller company index that has also underperformed against the blue chips over the past year, similarly shrugged off interest rate fears. The last time the benchmark yield breached the 7 per cent barrier the index suffered a month-long correction. Yesterday it rose 0.60 to 376.27.

The more broadly-based S & P 500 rose 4.03 to 851.06. IBM and Boeing were among blne chip gainers. The former flirted with an all-time closing high et $177⅞, up $4¼ or 2.5 per cent following an upbeat analysts' presentation in the past month. Boeing was hit by profit-takers last week after the European Union expressed concerns over competition.

TORONTO moved lower as the rally of the past three seesions eparked profit-taking. Golds made ground, but all other leading sectors retreated. At noon, tha 300 composite index was off 53.73 at 6,437.40.

Banks showed clear weakness ahead of first-quarter results stetemente from Bank of Montreal and Bank of Nova Scotia. Bank of Montreal gave up 65 cents to C$54.40 and Bank of Nova Scotia 35 cents to C$58.45.

Alcan Aluminium shed 40 cents to C$49.50 and Northern Telecom 70 cents to C$117.30.

Mixed start for leaders

Leading Latin American stock markets were mixed in early trading. MEXICO CITY opened flat as ADR weakness on Wall Street filtered into the market. With talk of a deal with Wal-Mart of the US fading, the Cifra retail chain shed 10 centavos to 13.20 pesos, while Ahmsa, the steelmaker, dipped 12 centavos to 18.10 pesos. At midsession the IPC index was off 18.09 at 3,966.93.

SANTIAGO also edged lower, the IPSA index showing a decline of 0.26 to 125.08 at midsession. But CARACAS pushed higher to rack up a midsession improvement of 41.24 to 6,868.74 on the IBC index.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1997	% change sterling † Start of 1997	% change in US $ † Start of 1997
Austria	+3.06	+6.65	+14.18	+14.37	+9.37	+4.19
Belgium	+1.14	+4.27	+31.72	+21.76	+16.34	+10.83
Denmark	-0.44	+5.72	+41.72	+20.54	+15.93	+10.44
Finland	+2.30	+9.20	+56.25	+26.09	+19.59	+13.92
France	-0.79	+7.61	+29.77	+18.20	+13.24	+7.87
Germany	-0.02	+6.07	+38.61	+23.47	+16.15	+12.55
Ireland	-0.34	+7.48	+26.32	+18.01	+10.66	+5.41
Italy	-0.78	+2.52	+17.96	+19.60	+14.61	+8.17
Netherlands	+1.23	+6.67	+40.84	+23.44	+17.94	+12.35
Norway	+2.97	+5.42	+35.82	+16.82	+11.17	+5.90
Spain	+2.70	+11.86	+58.42	+27.10	+21.71	+15.64
Sweden	+3.19	+11.25	+47.63	+23.24	+18.35	+10.83
Switzerland	+0.44	+8.38	+43.87	+30.67	+30.89	+24.67
UK	-0.60	+5.83	+20.88	+11.13	+11.13	+5.86
EUROPE	+0.15	+6.77	+31.30	+18.63	+15.77	+10.26
Australia	+1.58	+4.70	+18.41	+8.22	+9.52	+4.33
Hong Kong	+2.24	+11.42	+17.37	+0.30	+5.23	+0.24
Indonesia	+0.46	-1.73	n.a.	+1.94	+3.55	-1.36
Japan	-0.90	+5.30	-8.23	+1.77	+7.46	+2.38
Malaysia	+4.28	-1.15	-4.76	-12.80	-7.58	-11.97
New Zealand	+0.30	+3.52	+9.22	-2.07	+0.54	-4.24
Philippines	+3.33	-8.46	n.a.	-21.80	-18.15	-22.04
Singapore	-0.72	-3.99	-5.46	-5.11	-2.70	-7.31
Thailand	+6.58	-20.68	-62.97	-32.92	-29.60	-32.95
Canada	+3.30	+10.78	+26.91	+9.76	+15.00	+8.54
USA	+2.06	+10.73	+24.46	+13.54	+16.25	+13.54
Brazil	+1.75	+6.86	+65.94	+40.26	+40.26	+36.13
Mexico	+2.47	+5.33	+17.05	+17.95	+20.00	+17.85
South Africa	-1.39	-0.25	+3.59	+6.46	+16.89	+11.35
WORLD INDEX	+1.04	+8.27	+18.11	+11.81	+15.21	+9.75

† Based on May 23rd 1997. © Copyright, FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved.

Sell-off fears weaken Deutsche Telekom

EUROPE

Domestic considerations took over in FRANKFURT. From looking at 3,700 early in the day, and an all-time intra-day high of 3,691.56, the Dax index came back with a weak bond market to close 3.88 lower at an Ibis-indicated 3,665.43.

Turnover was up from DM10.2bn to DM10.3bn.

The German government's funding requirements, and their potential effect on Deutsche Telekom, came back to haunt investors.

The company came to the market, arguably overpriced, in mid-November; the shares had a couple of months in the doghouse and were restored to favour with a gain of 37.7 per cent, from DM29.86 to DM41.13, over the four-month period to May 12.

Yesterday, Deutsche Telekom fell DM1.33 or 3.3 per cent to DM38.72.

First, Bonn sources were reported as saying that the government planned to sell 287m Telekom shares in 1997, although new shareholders were originally promised that the government stake would be held until after the millenium.

Secondly, just before the Ibis close, Telekom itself said that it would keep its right to a capital increase, meaning more potential supply for the market to absorb, even if the government went ahead and sold its stake.

Other domestic sector news got a mixed reaction. Metro, the retailing conglomerate, was feted with a DM6.90 or 3.9 per cent gain at DM184.40. Metro's results were slightly better than expected, said Mr William Cullum at Paribas. There were indications that its profits were moving reasonably vigorously in the right direction and the company said yesterday that it might well bid for AVA, the food hypermarket group, which itself rose DM35 or 6.7 per cent to DM555.

However, there was reaction in the construction industry, which had seen occasional bouts of bottom fishing this year. Bilfinger & Berger produced DVFA earnings figures below analysts' targets, and fell DM2 or 3 per cent to DM65. The analysts said that its performance did not compare with that of Hochtief; but Hochtief, unfortunately, fell DM2.40 or 3.1 per cent to DM75.60.

PARIS steadied. Off 108 points on Monday on political uncertainty, the CAC 40 index clawed back 25.60 to 2,680.34 after dropping to 2,641.88 early in the session.

"The departure of Juppé shows that the Chirac camp are determined to wrest the initiative if possible. It'a going to be a volatile ride until Sunday's final round in the voting, and it could get even bumpier once the result is known," said one broker.

In spite of yesterday's modest recovery for shares, bourse sentiment was said to be "still very fragile". Low turnover was a direct reflection of this, with less than 12m shares changing hands.

Renault stayed out of favour, losing FFr2.10 to FFr144.50 amid talk that a change of government could dilute its restrncturing plans. Worries that its merger with the state-owned Aerospatiale could be vetoed left Dassault FFr62 lower at FFr1,168.

On the upside, Air Liquide rebounded FFr31 or 3.5 per cent to FFr910 as Monday'e upbeat presentation to analysts lifted it above the political fog.

MADRID galloped to yet another high, telling itself that although a new coalition in France might bring a watered down version of European monetary union, Spain could still profit from Emu as long as it happened on time. The general index rose 7.03 or 1.2 per cent to 577.76.

Communications led the sector gains with a rise of 2.1 per cent, Telefónica putting on Pta95 at Pta4,520 in heavy trade bolstered by foreign buying.

Gas Natural added Pta920 or 3.2 per cent at Pta29,800 after news of a four for one ehare split and, in banks, Santander put on Pta200 et Pta12,750 after it announced the purchase of a majority stake in an Argentine bank for $594m.

AMSTERDAM eased lower to finish with the AEX index down 6.06 et 806.13. Dealers said that eelling pressure was relatively light.

Nedlloyd was the one index stock to stay upright, adding 10 cents to Fl 47.70. PolyGram was the back marker, off Fl 2.00 or 2.1 per cent at Fl 93.20.

Among second liners, Pakhoed jumped Fl 2.40 to Fl 65.40 following a broker recommendation. Océ added Fl 5.80 to Fl 247.80.

ZURICH thought again about the Roche acquisition of Boehringer, decided that short-term earnings dilution might have longer term advantages and left the certificates SFr190 higher at SFr13,195. The broad market, however, was unsettled by early weakness in the Dow and by US consumer confidence data at a 28-year high. The SMI index closed 6.7 lower et 5,190.0.

MILAN moved higher, helped by reports that the government was planning to reduce inter-connection charges for mobille phone operators. Stet added L143 to L8,675 and Tim gained L45 to L4,680. Olivetti, which has a sizeable stake in the sector via its Omnitel unit, gained L7.80 to L505. At the close the Mibtel index was up 84 at 12,337.

VIENNA squeaked to a third consecutive record closing high, although a late flurry of profit-taking left the ATX index only 1.58 higher at 1,310.7. Mayr-Melnhof, the cartonboard maker, caught up with the broad market with a gain of Sch24.10 or 4 per cent at Sch627.10; but Bank Austria prefs fell Sch9.20 to Sch436 after Vienna's ruling city coalition agreed to sell a 49 per cent voting stake, heralding Austria's biggest bank privatisation to date.

ISTANBUL, which dropped last week on political uncertainty, enjoyed a 3.6 per cent rebound; but caution remained, even after press reports suggested that Mr Necmettin Erbakan, Turkey's Islamist prime minister, had agreed to an army plan to sack scores of Islamist officers at yesterday's Supreme Military Council meeting. The IMKB-National-100 index closed 53 higher at 1,523.

PRAGUE's RPIX index recovered a further 60.8 or 8.2 per cent to 1,043.5, following a drop of 29.2 per cent in the real-time index in the three months to May 21.

This followed a sharp fall in the koruna after the abandonment of the currency's link to the US dollar. But analysts warned that the euphoria would fade as investors faced the reality of high interest rates, and poor corporate fundamentals.

Written and edited by William Cochrane and Jeffrey Brown

FTSE Actuaries Share Indices

May 27	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2372.23	2372.76	2371.83	2372.74	2373.48	2373.58	2372.02	2370.09
FTSE Eurotrack 200	2394.86	2396.14	2396.11	2395.76	2397.52	2394.82	2395.00	2392.37

	May 23	May 22	May 21	May 20	May 19
FTSE Eurotrack 100	2367.18	2369.29	2364.38	2397.33	2342.61
FTSE Eurotrack 200	2381.76	2385.22	2385.14	2359.41	2375.09

Base value 1000 (26/10/90); High/day: 100 - 2374.57; 200 - 2400.04 Low/day: 100 - 2368.92 200 - 2390.45. † Partial.
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Manila extends recovery to fourth straight day

ASIA PACIFIC

A late surge pushed MANILA ahead for the fourth session running and left the composite index 112.71 or 4.3 per cent higher on the day at 2,710.91.

Initially limited to second liners, buying spread to leading stocks and created the second sharpest single day advance of the year.

There was a clear upswing for sentiment said brokers, although the low volumes suggested that part of the day's gains were technical. At 2.1bn pesos, turnover was well below average.

Among blue chips, Ayala Land rose 1.25 pesos to 9.75 pesos and Manila Electric gained 7 pesos to 137 pesos. One broker said there were clear signs of bargain hunting after the recent steep fall.

TOKYO fell below 20,000 on selling by domestic institutions, although blue chip exporters advanced on the dollar's recovery to the Y116 level and traders noted the entry of individual investors to the market, *writes Gwen Robinson.*

The Nikkei 225 average slid 153.61 to 19,889.89 after moving between 19,848.38 and 20,149.01. Early trading was lifted by the advance of international blue chips but, in spite of the increased individual investment on the buy aide, hefty domestic institutional selling dampened share prices in the afternoon.

Volume rose from 269m shares to an estimated 306m. Declines led advances 733 to 341, with 164 unchanged. The Topix index of all first-section stocks shed 10.16 to 1,484.45 and the capital-weighted Nikkei 300 was down 2.00 at 287.26.

Individuals continned to buy Shinko Electric, the pre-paid card maker, in response to Friday's reports that NTT, tbe telecommunications leader, would use the cards in a new pay-telephone system. Shinko, the dey's most active issue, jumped Y75 to Y542.

The dollar's appreciation to the Y116 level encouraged renewed interest in export-driven issues, although lingering concerns about further turbulence in currency markets limited their rise. TDK added Y60 to Y8,630 and Pioneer Electronic Y10 to Y2,580, but Sony fell Y10 to Y9,690 and carmakers retreated, with Toyota off Y60 at Y3,510 and Honda down Y40 at Y3,540.

Minolta added Y30 to Y760 on strong profits and sales in the business year to March. Among other issues to benefit from positive earnings announcements, Toshiba edged up Y5 to Y715 and Fujitsu Y20 to Y1,380.

Oki Electric Industry, bowever, fell Y21 to Y585 on Monday's lower than expected results. Ishikawajima-Harima Heavy Industries, which also announced lacklustre earnings, fell Y23 to Y458.

Two banks which posted recurring losses for the business year paid the price: Nippon Credit Bank fell Y8 to Y239 and Nippon Trust Bank by Y26 to Y380.

General contractors retreated after a government panel on fiscal reform recommended large cuts in public works spending. Shimizu slid Y14 to Y700 and Kajima Y14 to Y646.

In Osaka, tha OSE average fell 121.24 to 20,758.15 and volume edged down to 12.3m shares. In London, the ISE/Nikkei 50 index rose 5.89 to 1,569.67.

JAKARTA moved ahead but activity was said to be low ahead of tomorrow'a general election. The composite index gained 5.65 or 0.9 per cent to 668.85 in modest turnover of Rp316bn.

There was bargain hunting among bigger capitalisation stocks and it was a relatively busy day for some smaller caps. One of these, Mas Murni, a property group, topped the activity charts, trading 38.1m shares and rising Rp125 to Rp1,050 on continued talk of a possible takeover or rights issue.

TAIPEI closed lower on profit-taking with the weighted index slipping 71.40 or 0.9 per cent to 8,123.26 on turnover, described as muted, at T$73.6bn. Trading focused heavily on electronics shares, Winbond gained T$1.10 to T$38.90 and Acer T$0.50 to T$76.50, but there was heavy selling elsewhere in the sector, which ended off 1.3 per cent.

SINGAPORE moved, the Straits Times Industrial index closing 19.69 higher at 2,076.01. However, brokers noted signs of late, concerted buying by a small number of investors, and said that it might be derivatives-linked.

Datacraft Asia, a specialist in systems network integration, leapt 21 cents or 7.3 per cent to S$3.10 on a newspaper report that it was featured as one of the top Singapore stock picks in a US magazine.

SHANGHAI saw institutional support buying of shares with a heavy index weighting, and the B share index rose 3.625 or 4.4 per cent to 85.763; SHENZHEN, recently more volatile, staged a recovery that left its own B share index up 4.73 or 3.2 per cent at 151.07.

South Africa closes flat

Shares in Johannesburg continued to trade narrowly. Volumes were healthy, but the main indices showed little overall movement. The all-share index ended 2.2 lower at 7,065.3.

Both industrials and golds were flat. Industrials ended off 0.8 at 8,319.3 and the golds index eased 2.3 to 1,186.5 despite a generally better day for the bullion price. ABI jumped R1.10 to R27.70 as a rival soft drinks bottling group, New Age Beverages, filed for liquidation. Suncrush gained 20 cents to R9.20.

SouthWits bardened 3 cents to 25 cents amid talk of management changes.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 26 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 23 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	233.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria (24)	200.41	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (28)	264.76	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil (30)	261.92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada (113)	209.89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (32)	389.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland (26)	277.91	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France (91)	222.03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany (59)	216.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (56)	517.81	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia (27)	226.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (16)	348.68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy (59)	89.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan (485)	132.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (107)	531.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (27)	1439.80	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherland (19)	361.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (14)	88.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (41)	315.11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines (22)	159.09	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (42)	352.22	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (44)	354.53	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (35)	260.63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (38)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (43)	61.34	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (211)	301.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (652)	342.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (822)	313.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (725)	264.68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (150)	402.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (882)	150.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1607)	198.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (765)	334.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (514)	238.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (397)	310.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1821)	201.68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2262)	241.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1988)	305.09	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2473)	246.37	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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هكذا من الأصل

PREPARING FOR Emu

AN FT GUIDE

The quality of technical preparations and pace of decision making have given Emu an air of inevitability. But exclusions from the first wave could prove explosive. **Lionel Barber** reports

Run-up for leap into the unknown

Fasten your safety belts. The plan to leunch European economic and monetary union on January 1, 1999 is accelerating into a *nerve-racking end-game.*

Once sceptical financial markets heve turned into true believers in the single currency. Banks and big business are investing heavily to prepare for the euro. The French and German governments are adamant that Emu will be the cornerstone of a more united Europe. An air of inevitability surrounds the project.

Yet Emn retains e capacity to surprise. Growth in Europe remains sluggish by US or *Asian standards, making* it harder for countries to meet the Maastricht treaty deficit targets. Last week, the German government, in an act of desperation, announced it was planning to revalue the gold and foreign currency reserves of the *Bundesbank, in* order to meet the deficit target of 3 per cent of GDP in 1997.

For better or worse, Emu has become the defining issue in European politics. In Britain, the Conservative party's civil war over Europe and monetary union led to Labour's landslide election victory. In Germany, Chancellor Helmut Kohl has chosen to stand for an unprecedented fifth term in office *next October, largely on the* single currency ticket.

In Italy and Spain, prime ministers of coalition governments of the centre-left and centre-right have declared their policy to be "Emu or bust". In France, President Jacques Chirac has called a snap general election, probably to clear the decks before e fresh round of spending cuts needed to meet the public deficit criterion.

One senior European central *banker complains that* Mr Chirac's move reflects the "sect-like" epprosch to monetary union. Certainly, a wide gap exists between the political elites who support Emu as the catalyst for deeper integration *and ordinary* citizens who associate it with deflation and high unemployment.

So what are the prospects for a timely launch? Which countries are likely to meet the Maastricht criteria? And what are the likely political *implications* of the Emu project?

The first argument in favour of a successful launch is that the politicians are simply too deeply committed to retreat. Chancellor Kohl *embodies* the iron will to make Emu happen; his recent declaration that a delay would be "intolerable" may even have been a hint to Mr Waigel to press ahead with the revaluation of the *Bundesbank reserves,* despite the inevitable charges of accounting chicanery and the damage to the prestige of the Bundesbank.

Second, however unfairly, European leaders are linking *Emu's fate to the success of* the other big EU project: the planned enlargement to central and eastern Europe around the turn of the century.

Third, technical preparations are more or less in place, thanks to sterling *work by* the European Monetary Institute, the Frankfurt-based precursor of the European Central Bank, and the European Commission in Brussels.

The breakthrough came in Madrid in December 1995 when EU leaders agreed to the "double big-bang" epproach on the introduction of the single currency. Exchange rates for qualifying countries will be fixed irrevocably on January 1. *1999 when the euro* will become the major transaction currency for governments and corporate treasurers. Euro-notes and coins will enter circuletion between January 1, 2002 and *June 2002.*

Six months ago, in Dublin, EU leaders followed up with a hard-fought agreement on e growth and stability pact to govern budgetary discipline among members of the euro zone; and they forged a second accord on e revamped exchange rate mechanism to regulate relationship between the "ins" and "outs". They also settled the legal status of the euro.

The quality of technical preparation and the pace of *political decision-making has* given finance and industry the incentive to start investing in the new software and skills needed in the post-Emn world. An informal alliance exists between big business and the technocrats similar to the one which underpinned the leunch of the single market ten years ago.

The daily mantra is that all will be revealed in *May* 1998 wben EU leaders choose *which countries* have met the Maastricht criteria; but there are inherent contradictions which make the project, at least in some eyes, questionable.

The basic tension exists between the independent professionals in the central banks and the politicians. The professionals fear that if countries without a record of sound public finances and exchange rate stability join Emn early, the *stability of* the central bank and the euro could be compromised. Yet politicians are reluctant to countenance a "narrow" Emu because it could split the EU. These tensions are compounded by the "*German problem*".

Officially, Emu is open to all, but the German government must be eble to show that the Maastricht rules are being applied rigorously, or risk an edverse ruling from the *German constitutional* court or a popular backlash egainst Europe. Already, more than two-thirds of the German public are sceptical about surrendering the D-Mark.

German *officials* admit that the Maastricht criteria *were intended to reduce* the chances of weaker economies, notably debt-ridden Italy joining Emu in 1999. Yet the Italian government, while scrambling to meet the deficit target with a mixture of *one-off measures and* promises of structural reform, has warned that the consequences of exclusion from Emu would be dire: a slide back into the political chaos and *fiscal indiscipline* of the 1970s, even e secession of the rich north to the euro bloc.

One compromise would be for latecomers to wait 12-18 months before joining monetary union in, say, *2000, well* ahead of the introduction of *euro-notes* and coins. A sweetener would be to hold open one or two of the six seats of the executive board of the ECB. But when the prospective deal leaked out earlier this year, it met with *denunciations from Rome* and accusations in the press of "monetary racism".

Somehow, someone has to find e way of defusing the explosive politics of Emu. Monetary officials believe that the financial markets may settle the question of Emn later this year, second-guessing the politicians and pushing up the interest rates of those countries unlikely

continued on page 2

IN THIS SURVEY

WHAT DO THE EUROPEAN LEADERS SAY?

SEE BACK PAGE

ECONOMIC IMPACT • by Wolfgang Münchau

Predictions of widespread risk and reward

Alexandre Lamfalussy, outgoing president of the European Monetary Institute, has stressed that judgments on entry will be based on sustainability of convergence

There will be deep structural implications for Europe's economies

There are not many historic parallels that measure up in significance to European economic and monstary union (Emu). The most obvious is the German *Zollverein* in 1834, the customs union of German states that gave rise first to a fixed-exchange rate system between the gulden, the sonthern German currency, and the thaler, the northern German curreocy, which merged into the mark in 1873. Historians still disagree over wbether customs union and monetary union gave rise to political union, bnt the parallels to current-day Europe are evident.

Emu is without doubt the most important economic event in post-war European history, and it may turn out to have been the most important economic event in most of our lifetimes. At the same time, Emu is fraught with Immeasurable risks, and could still turn out to be an economic disaster. This is precisely because it carries deep structural implications for Europe's economies, for Europe's companies and employees, and for competition in general.

Contrary to widespread helief, Emu is not abont lower transaction costs in cross-border operations, or about lower bedging costs, and all the other relatively petty reasons that have been invoked in its defence. Its introduction is likely to have a real economic impact, producing cbanges, some foreseeable, some less easily so. Some companies will go bust as a direct result of Emu. Others could find windfall gains. There will be employees who will lose their jobs as a result of Emu. There will be many winners and many losers, but their national, regional and sector distribution is impossible to forecast. This is where the political risks set in.

The pure macroeconomic effects of Emu, by contrast, are somewhat easier to assess, with the usual caveat that applies to all economic forecasting.

The first prediction is that Emu will lead to a significant redistribution of wealth in the EU. This is not necessarily a redistribution from poor to rich or vice versa, but more likely a redistribution across the board.

The single currency will hit many sectors of the economy unevenly. Many industrial companies have warned that they will consolidate the number of their EU-based factories. Surveys suggest tbat many companies will consolidate their banking relations – the result being a likely haemorrhage of small banks.

Big international companies hope to benefit strongly from tbe euro; mid-sized companies are more lukewarm, whils many small companies fear that the euro will bring only cost, but no benefits and perhaps even danger.

Some economists even suggest that governments could find Emu scting as a wealth tax on tbe black economy, which is after all s cash-based ecooomy. Under Emu, black marketeers would at one point have to transfer their ill-gotten D-Marks – the currency of choice in the EU's black economy – into euros, thereby putting themselves at considerable risk. This could be a popular move, but given the size of the black economy in some parts of Europe, it could instead turn out to be a highly unpopular move.

Much of this enhanced competition and the ensuing redistribution of wealth and income should have come as a direct result of the single European market. But this did not happen because the residual exchange-rate risk left much of the single market's economic potential untapped. A single currency will make prices not just comparable across nations but also more transparent. It will mean a far greater degree of price arbitrage across the EU, for example on the part of mail order companies, whicb can be relled upon to exploit price differentials with ruthlsss efficiency. The euro economy is likely to react to price signals far more efficiently than nationally based economies.

Independently of Emu, the single market is likely to grow in importance in any case, because several key sectors of the economy, such as telecommunications and energy are currently in the process of privatisation and deregulation across the EU.

This brings us to our second prediction: with margins, profits and prices coming under pressure, Emn will be highly anti-inflationary, possibly even deflationary. Another more familiar reason is the way one can reasonably expect the future European Central Bank (ECB) to conduct economic policy. As one of the most independent central hanks in the world, the ECB may seek to establisb credibility early on.

Since successful monetary policy is not a precise science, but a mixture of economic analysis, judgment and a dose of good luck, the ECB will probably choose to err on the sids of cantion. This in turn implies that real interest rates will be high initially and may fall only in the long-run.

This assessment makes one crucial assumption, which may well turn out to be wrong: that the new central bank will act in the way in which the Bundesbank, its constitutional and institutional role model, acted in the past. Yet it is conceivable that the ECB may look for inspiration elsewhere, for example tbe Federal Reserve, probably the world's most successful central bank in the 1990s.

In a recent interview, Mr Alexandre Lamfalussy, the outgoing presidsnt of ths European Monetary Institute (Emi) recalled that hardline monetarism is relativsly young, having emerged only from what he referred to as a "cultural revolution" in the 1970s. Few revolutions succeed, and even fewer last. Bnt given the prevailing mindset among EU central bankers, one suspects that this particular revolution is not quite finished yet.

This brings us to our third prediction: Emn will probably have a positive effect on economic growth in the long run, but could have a negativs effect on soms economies in the short term. This outcome is probably the least certain of all. There will be Increased competition, both from Emn directly and from the single market. The need for tight fiscal policy may accelerate reform of public finances – and already has done in several EU countries – and if this were to coincide with reforms of social security systems, it could in time take soms pressure off the labour markets. The result could be a series of mutually-reinforcing virtuous mechanisms.

The negative growth implications in the short term would stem directly from an over tight monetary policy. This would be reinforced by a tight fiscal policy on the basis of the stability pact, signed by EU leaders at the Dublin summit last year. The pact specifically prescribes a borrowing ceiling of 3 per cent of gross domestic product. If ths combination of a tight fiscal and monetary stance were to lead to an overvalued exchange rate and a slump in exports, Emu could easily trigger an economic downturn.

If the downturn became a recession early on, Emn itself would be at great political risk.

This leads us to the fourth and perhaps most depressing prediction: unemployment will remain significantly above levels considered necessary for price stability for some time to come. High EU unemployment is not only the result of malfunctioning labour markets but of malfunctioning social security systems, which are financed not through general taxation but through levies on ths labour market directly.

Most EU countries have yet to taks fundamental steps in reforming these systems, which constitute a significant tax on johs. In Germany, indirect wags costs account for well over 40 per cent of total wage costs, the reason for Germany's top position in the international league tables of wage costs. Most experts agree that it makes no economic sense to place ths entire welfare burden on the labour market at a time of record unemployment. But most European governments have failed to push through more than cosmetic reforms.

The final prediction about the macroeconomic effects of Emu is that the euro will become a large reserve currency to rival the dollar.

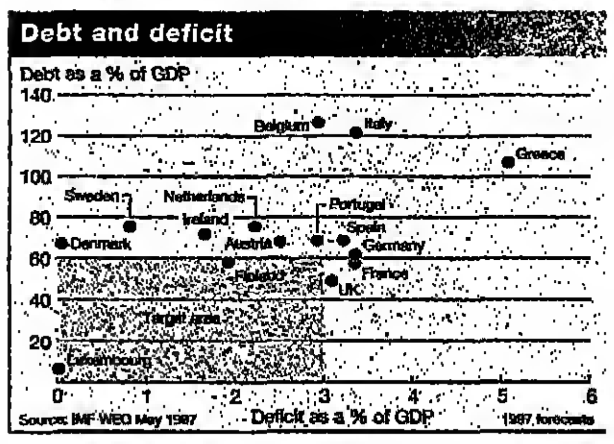
The developmeot is entirely benign, because it would make the international financial system – and ths international financial Institutions, such as the International Monetary Fund and the World Bank – less lopsided. Many central banks, especially in Asia, are expected to switch over some of their reserves into euros, to achieve a more balanced portfolio that is more in tune with their trade flows. Reserve currency status for the euro will have some consequences for monetary policy, and could lead to greater exchange-rate volatilities than would otherwise be the case – a potential problem for exporters.

Taken together, the economic consequences of the euro are likely to be more immense than any policy decision taken for decades. Yet the introduction of the euro was decided primarily on political grounds – to provide a further impetus for European integration, which supplanted the economic argument that a single market requires a singls currency to be fully effective.

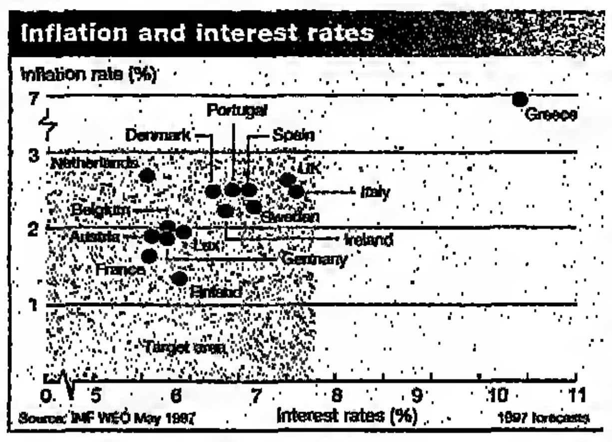
This contradiction has plagued ths preparatlon period significantly, and is posing a great dilemma for countries, such as the UK, Denmark and Sweden, which are sceptical about further political integration, and yet they fear that they may suffer economic disadvantage by staying outside the euro-zone. But a currency is not just a medium of exchange, a store of value, and a unit of account as the textbooks suggests. It also forms part of a country's constitutional and political fabric.

Looking at the economy as a whole, the long term consequences of Emu could turn out to be benign as long as the promised efficiency gains come shont and as long as the sharp tools of monetary policy are used with restraint. But this depends to a great extent on the wisdom of the governing council of the independent ECB. If it lacks political sensitivity, the result could be very different.

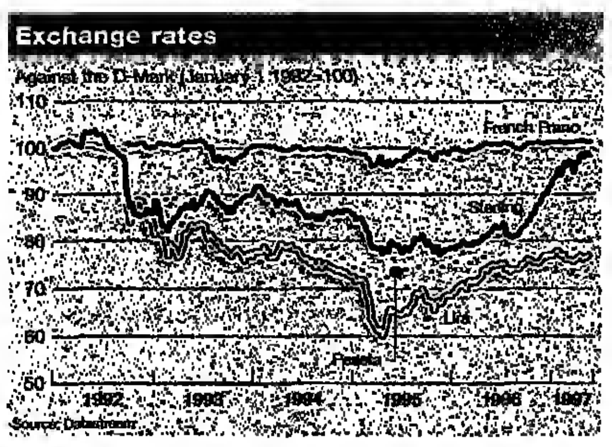
Debt and deficit



Inflation and interest rates



Exchange rates



Run-up for leap into Emu

continued from page 1

to be in the first wave. A widening of the Italian-German spread would sink Italy's chances for 1998, whatever new belt-tightening or accounting wheezes come out of Rome.

The other bet is that political leaders expect the Commission and the EMI to do their dirty work. Both institutions will unveil recommendations on which countries meet the Maastricht criteria in March 1998. Their final judgment will be based not just on the outturn for 1997 but on past performance and on prospects for the future.

As Mr Alexandre Lamfalussy, the outgoing president of the Emi, stressed in a recent interview with the FT this means assessing whether the member states' convergence is sustainable – a judgment which in turn may rest on wider criteria such as the reform of pensions and other big-ticket items which are part of Europe's creaking welfare state.

The latest Commission prediction is that only Italy and Greece would fail to meet the three per cent deficit in 1997; indeed, Italy's budget deficit was marked up to 3.9 in 1998. The forecast that 13 countries would be ready for Emu may look optimistic, but the rapid progress of Spain and Portugal, confirmed recently by EU finance ministers, suggests that the "Club Med" is breaking up.

In the last resort, the new Labour government in Britain may have a constructive role to play in the final brokering of an Emu deal, since the selection process falls inside its presidency of the EU which begins on January 1, 1998.

Despite the pro-European inclinations of Mr Gordon Brown, the new chancellor, and his penchant for pulling off surprises, it seems unlikely that Labour will join Emu at the outset. Public opinion in Britain is too sceptical; the risk of surrendering economic sovereignty on this scale too big for a party which has spent 18 years out of power.

If Britain exercises its opt-out, if only temporarily, it could soften the blow to countries left outside, especially since Denmark and Sweden are virtually certain to delay entry on political grounds. If Italy and Greece also stayed out, a respectable mass of 10 countries could move ahead on January 1, 1999.

Finally, the paradox about Emu is that so much energy has gone into the preparation that not much thought has been given to the politics of the post-Emu world.

The single currency will create a new institution: an independent European Central Bank in Frankfurt committed to price stability. This is the German model; but already French politicians, most recently Mr Alain Juppé, the Gaullist prime minister, and Mr Jacques Delors, former president of the European Commission, are insisting on a "European economic government" to act as a counterweight.

Potential tensions exist, too, between those committed to a strong currency as the counter-inflationary anchor and those tempted to adopt a weaker euro against the yen and dollar to steal a competitive advantage. The ECB will make recommendations, but ministers will decide the strategy.

If Emu really is destined to be the elite grouping in the EU, the price of membership will be further "deepening", most likely in areas such as taxation previously considered taboo. This all adds up to one conclusion: monetary union, even for the most committed, is a giant leap into the unknown.

ESSENTIAL ANSWERS • by Wolfgang Münchau

The when, how, who, and what

Wim Duisenberg: backed for presidency of ECB by all but France

Will Emu happen on time?
Probably yes. The economic and legal implications of a delay are so serious, that the envisaged January 1, 1999 starting date is now considered fixed. The problem is that the Maastricht Treaty specifies both a final starting date as well as a series of qualifying criteria, but does not include provisions if the two are in conflict. The German and French governments are both making strenuous efforts to fulfil the criteria, especially the requirement that public sector deficit must not exceed 3 per cent of gross domestic product. The latest economic projections suggest that both countries will struggle to meet these targets, but there may be enough leeway for them to succeed. If both countries qualify – and barring further political upset – Emu will go ahead on schedule.

When and how will this be decided?
Formally, the decision will not be taken by EU heads of state and government until early May 1998, but in reality most of the decisions will be taken earlier. By the autumn of this year, most countries will have reliable economic projections for the current year, which will show whether they are on course to meet the qualifying criteria. The European Monetary Institute (Emi), the forerunner of the future European Central Bank (ECB) will present its official ahead-of-selection convergence report in March 1998. EU finance ministers will then prepare the decision. In case of disagreement – the potential exclusion of Italy, for example, is likely to be contentious – the issue will be settled by the EU summit in early May.

How will the conversion rates be fixed?
This is by far the riskiest element of the entire transition process, at least until January 1, 1999, after which other risks set in. Most likely, the prospective members will pre-announce their bilateral conversion rates – their cooversion rates against each other, rather than against the euro. On January 1, 1999, EU heads of state and government will formally announce the euro conversion rates. These will be the same as the Ecu rates, since the euro and the Ecu – the current currency basket of the currencies of all EU members – will convert at a rate of one-for-one. The risk stems from the financial markets, which might speculate against the conversion rates in the interim. The bilateral cooversion rates could be the same as the current parities in the exchange-rate mechanism.

What happens to the outs and their currencies?
The Dublin summit in December 1996 established the principle of a new exchange-rate mechanism to link the currencies of the "outs" to the euro. There is disagreement about whether the Maastricht Treaty's exchange-rate criterion strictly applies to this new mechanism, although for practical purposes, the second wave members will need to tie their currencies for at least some time.

What about the likely opt-outs, the UK, Denmark and Sweden; is it probable that they will join too?
Difficult to predict with certainty. The UK government is likely to wait and see whether Emu works before it commits itself. The better Emu is perceived to work, the greater the chances of the three countries joining within three years of 1999 in a second wave. The decision in the three countries is also likely to be subject to referenda.

How should you prepare if your country joins Emu?
Emu will have massive effects on the way companies and banks operate. It will involve substantial changes to accountancy, financial and computer systems, and will also have strategic implications on areas such as pricing policy, wage levels, banking relations, perbaps even factory location. For a full assessment, see page 7.

How should you prepare if your country is not among the first wave?
That is far more difficult. Obviously no preparation is needed if you operate purely locally, or even nationally. In other cases, however, Emu could affect your competitive position in the EU. UK banks, for example, are adopting a dual-track approach: they are fully preparing their wholesale operations for Emu, while paying less attention to the retail side. They should, however, be aware that they will probably have much less time for preparation than their German or French competitors, if their governments decide to join at a later stage.

Who are the winners, who are the losers?
Multinationals and Europe's largest banks are likely winners. It is possible that Emu will increase competitive pressure in various sectors, especially banking. Some experts forecast a strong consolidation in the European banking sector. Also among the relative losers are companies which will have to pay the costs of the change over without benefiting from the trading effects, for example companies that trade only locally, such as shops and restaurants. A simple example: slot machine operators will be relative losers because they will have to adapt the machine for the new euro coins. Slot machine producers will be net gainers.

Will the euro be a strong currency?
Probably yes; the euro will be backed by one of the most independent central banks in the world, more independent than the German Bundesbank or the Federal Reserve in the US. The central bank's main function – enshrined in the Maastricht Treaty and thus practically irrevocable – will be to safeguard the stability of the currency. Furthermore, the European Central Bank is more likely to err on the side of caution, at least in its first years of operation, in order to establish what central bankers refer to as "credibility" with the financial markets. There are many observers who fear that there will be a substantially greater risk that the euro will be "too hard" than "too soft".

Who will head the ECB?
The front runner is Mr Wim Duisenberg, currently governor of the Dutch central bank. Mr Duisenberg will take over as president of the European Monetary Institute, the Frankfurt-based forerunner of the ECB, in July. As a candidate for the presidency of the ECB, Mr Duisenberg is backed by all EU countries, except France. The French consider him too close to Germany and the Bundesbank and too removed from France.

What will happen to the national central banks?
The ECB and the national central banks will form the European System of Central Banks (ESCB). Broadly, the ECB will take the policy decisions, while the national central banks will conduct most of the operating functions, for example certain open market interventions. There is a dispute inside the Emi – specifically between France and Germany – about the precise division of responsibilities. France prefers a more decentralised system. Germany fears that this would undermine the effectiveness of the ECB.

Will the period 1999-2002 – the time between the start of Emu and the introduction of euro coins and notes – give rise to confusion?
Some critics warn that this rather long period of dual currencies could give rise to confusion and massive logistical problems. The central banks and the banks are likely to be well prepared to handle this transitional phase, but this is not necessarily the case for the rest of the economy. It is also unclear whether and when companies or even private individuals will change over to the euro as their preferred unit of account.

What are the implications of a failure of Emu? Are there any fallback options?
Nobody admits to making secret preparations for a fall-back position in case Emu does not work out. The official line is that the implications are "unthinkable". A return to national currencies would at the very least be a highly disruptive. It would also pose risks for further European integration.

Will Emu lead to harmonisation of fiscal policy?
Emu will certainly lead to growing pressure for more tax harmonisation, especially from Germany and France which fear that nations could buy themselves competitive advantages by offering special tax deals to corporate customers. But it is by no means certain there is a majority in the EU for meaningful tax harmonisation. Emu will invariably give rise to pressure for further political integration. It will most certainly not be an entirely economic, let alone monetary, project.

THE FIRST WAVE • by Wolfgang Münchau

Probables and possibles

The criteria are crucial but ultimately the judgments will be political

The identity of the EU countries which will join European economic and monetary union as part of the first wave in 1999 is one of the greatest uncertainties surrounding the project.

Assuming that Emu goes ahead on schedule, there is little doubt that Germany and France will take part, if only for political reasons. This at least is the central working assumption of everybody closely involved with the project. This is despite the fact that both countries will struggle to meet all the qualifying criteria set out in the Maastricht Treaty, and despite the fact that other countries are ahead in their ability to fulfil the entry conditions.

French officials say privately that they will struggle to meet the deficit criterion – a budget deficit not exceeding 3 per cent of gross domestic product. Germany looked in danger of missing the deficit target, at least before Mr Theo Waigel, the finance minister, announced that Germany's gold and dollar reserves are to be revalued. The decision has rattled Germany's financial establishment as well as its EU partners.

The participation of all three Benelux countries also appears reasonably certain. At over 120 per cent of GDP, the Belgian debt stock is more than twice the 60 per cent Maastricht ceiling, but the Treaty allows ample scope for interpretation. Most important is that Belgium's debt is falling.

The same applies to Italy, but Italy is likely to fail the crucial deficit criterion this year, according to several forecasts, including a recent projection by the European Commission. More damningly, Italy's budget deficit is expected to increase again in 1998. Italy's chances of participating in the first wave of Emu must be considered doubtful. However, the Italian government can be expected to fight its case with maximum effort.

Portugal is expected to qualify on all the convergence criteria in the wake of a strong economic performance and strong fiscal consolidation. Spain stands a good chance, too, as its deficit is forecast to be heading towards 3 per cent. Ireland, Finland and Austria are likely to qualify, with forecast deficits way below the 3 per cent ceiling.

Apart from Italy, four EU countries are likely to stay outside the first wave of Emu. Greece is still far away from qualifying, despite the tremendous improvement in the country's economic performance and fiscal position. The debt stock still stands above 100 per cent of GDP, although it is lower than Italy's and Belgium's. The deficit, at 5 per cent, remains significantly outside the target range, but it has been falling fast. The Greek government aims to qualify in 2001.

The other three – the UK, Denmark and Sweden – are expected to stay outside the first wave for domestic political reasons. UK ministers have said repeatedly that it was highly unlikely the UK would join Emu in 1999. In the case of the UK, there are also economic reasons for staying outside, at least initially. The UK economy is significantly ahead of the others in the economic cycle, and the pound has been highly volatile against the D-Mark over the last year. Furthermore, the current exchange rate is judged as too high inside the UK. Public opinion also remains apathetic bordering on the hostile. The same is the case in Denmark and Sweden.

The formal decision on participation is not due until May next year – to be taken at a special summit by EU heads of state and government – but the groundwork will be prepared earlier. The European Monetary Institute (Emi) will publish its own convergence report in March 1998, which will undoubtedly carry much weight in the decision process.

The report will be qualitative – it will comment on individual countries' efforts towards convergence, but it will probably not identify the "ins" and the "outs" explicitly.

The ultimate judgment is almost certainly going to be political.

Mr Alexandre Lamfalussy, the outgoing president of the Emi, said in a recent interview that he was surprised by the strong degree of economic convergence. He mentioned Greece and Spain as two countries which had made significant strides towards Emu membership. He indicated it was conceivable that all EU members could be part of Emu within three years of launch.

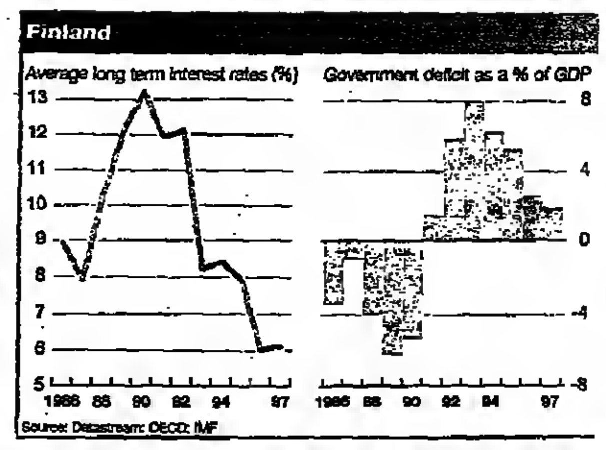
More importantly, the shorter the period between the first and subsequent waves of Emu membership, the less politically divisive the process is likely to be.

The political task of the selection process will involve more than just striking individual countries off the participation list.

It will also involve countries being offered the prospect of joining within a relatively short period, without undermining the economic convergence criteria. This task would prove even more delicate if it involved large countries such as Italy or Spain. But even the most hardline officials acknowledge that any decision would have to be consensual, to be taken without a formal vote.

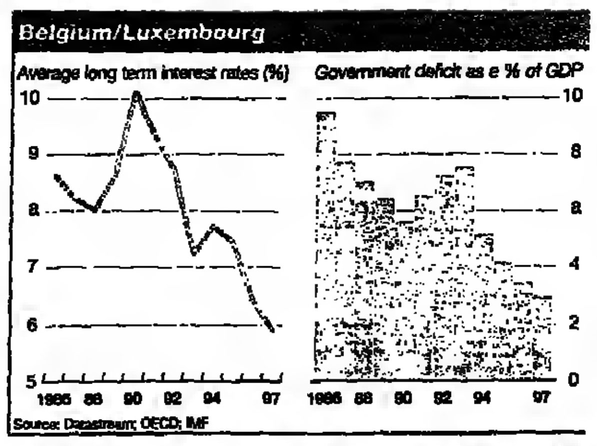
That alone would tilt the balance towards a large membership base.

Finland



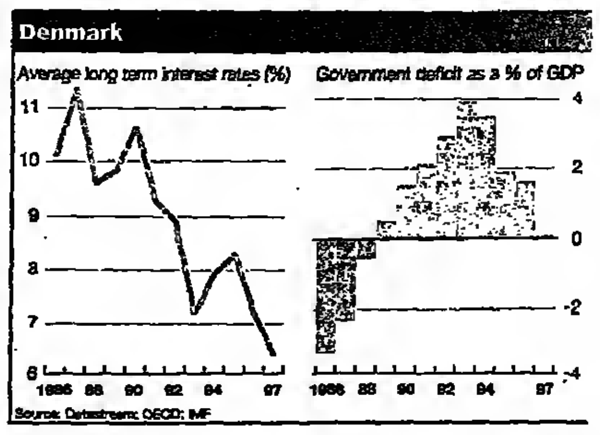
Source: Datastream; OECD; IMF

Belgium/Luxembourg



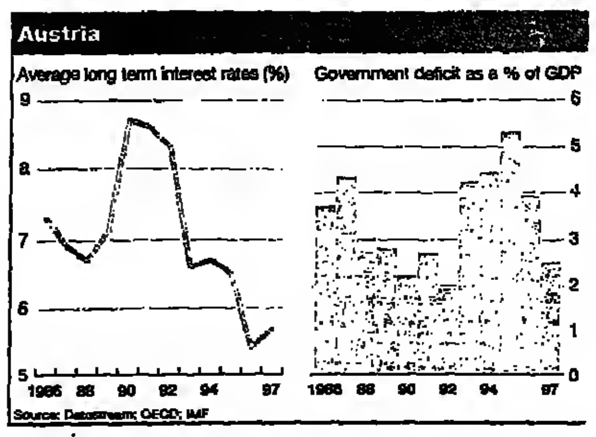
Source: Datastream; OECD; IMF

Denmark



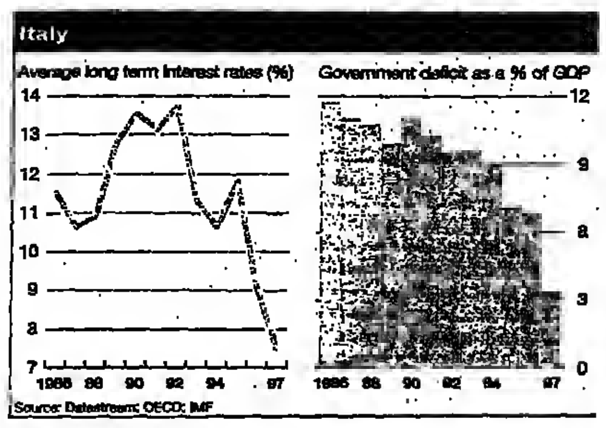
Source: Datastream; OECD; IMF

Austria



Source: Datastream; OECD; IMF

Italy



Source: Datastream; OECD; IMF

ITALY • by Robert Graham

Late dash

Tough fiscal measures and expenditure cuts may not be enough to gain entry

Italy is paying a high price for a late start in trying to meet the criteria for joining the single currency in the first wave.

Not only is Italy being obliged to carry out a bigger adjustment in a shorter space of time than its other EU partners, it is also having to bridge a greater credibility gap than others.

This year the centre-left government of premier Romano Prodi is seeking to take the equivalent of 3 per cent of GDP out of the economy in the annual budget and a supplementary financial package. Since taking office in May 1996, this government has introduced measures designed to find almost L100,000bn in new taxes or via spending cuts – equivalent to 5 per cent of GDP. Indeed, it is the sole EU government to introduce a specific once-off progressive "euro-tax" on incomes designed to raise L5,500bn in extra revenue to ensure Italy holds its 1997 deficit down to 3 per cent of GDP.

Yet despite this Herculean effort, the latest forecasts suggest the 1997 deficit will miss the precise Maastricht target and hover around 3.1 per cent of GDP. This is largely because economic growth has remained much more sluggish than hoped, so reducing treasury receipts. The first quarter of 1997 has seen the economy stagnant, with depressed domestic demand, while a stronger lira has seen exports level off. The recovery is not expected before the second half of the year and even then is likely to be modest – not least because of the squeeze imposed by the budget.

Indeed the authorities have had to tread a fine line in their fiscal measures and expenditure cuts, trying to avoid further depressing demand. As it is, growth for 1997 will be no more than 1.2 per cent and probably around 2 per cent for 1998. This puts Italy well outside the recovery cycle of France and Germany.

Also the Bank of Italy has continued to operate a more restrictive monetary policy than other European central banks, with interest rates correspondingly higher. The spread between Italian treasury paper and German bonds has been substantially reduced but it is still notable. Since Italy runs a sizeable primary surplus (equivalent to 4 per cent of GDP), a further drop in interest rates will have a significant effect on the public sector borrowing requirement.

If Italian rates were to converge closely with those of Germany, its budget deficit problems would largely be resolved. However, the sheer size of Italy's debt stock means that it is very distant from the Maastricht target on the debt/GDP ratio. Italy's debt is hovering around 123 per cent of GDP as opposed to the 60 per cent recommended.

The Bank of Italy is being very prudent about relaxing interest rates, anxious to ensure headline inflation does not begin to edge up again before the summer having touched a 30 year low of 1.7 per cent in April.

Politically, the Prodi government is still committed to being in the first group of countries joining the single currency. This will also be spelled out in the government's three year macro-economic document that contains projections for growth and deficit targets.

The Brussels commission this month criticised Italy's budgetary measures as containing too many one-off items. The commission has also pointed out that without correction, the 1998 budget will overshoot the criteria, creating a deficit of close to 4 per cent. Brussels has made it clear the 1998 deficit should aim at being below 3 per cent to demonstrate Italy's public sector borrowing requirement is on a sustainable downward curve. This means the 1998 budget may have to be in the order of L30,000bn.

Whether such sacrifices are politically viable remains to be seen. Mr Prodi has repeatedly said he will resign if Italy is excluded from the euro core countries. Further tax increases are not on the cards given the high fiscal pressure, nor are the accounting devices so liberally used in the 1997 budget and its supplement. This means Mr Prodi has to attack public expenditure in the most sensitive area – pensions.

Technically the modest 1995 reform of the generous pay-as-you-go pensions system cannot be touched. But discussions have already begun with the trades unions on a further shake-up. There is a huge gap between what the government needs to save by cutting pension rights and the concessions the unions are prepared to make. The unions and the left as a whole do not share the government's hurry to be in the first wave. It would be surprising if the government can satisfy both Brussels and the unions.

ABN·AMRO · The Network Bank

GERMANY • by Peter Norman

Creative accounting

The recent decision to revalue reserves will ensure qualification

In January this year, at the height of the Rhineland carnival season, revellers in Aachen presented Mr Theo Waigel, Germany's finance minister, with their city's prestigious medal "against deadly seriousness".

Three and a half months later, in the midst of the federal government's latest budget crisis, Mr Waigel demonstrated that he had taken the message of the Aachen carnival committee to heart by boldly announcing plans to revalue the Bundesbank's gold and currency reserves.

The minister's audacious move liberated Germany from a fiscal constraint that was threatening its ability to be a founder member of the proposed European single currency. At a stroke, Mr Waigel removed serious worries that Germany would fail to meet the Maastricht deficit criterion limiting Emu members' public deficits to no more than 3 per cent of gross domestic product.

But in doing so, he dealt a blow to that reputation for financial gravity which has been the mainspring of Bonn's political and moral power to ensure that the euro area follows a blueprint for financial and economic stability "made in Germany".

"The Bundesbank's cautious valuation of its gold and dollar reserves contributed to our reputation as a world champion of solidity," noted Mr Heiner Flassbeck, director of the Berlin-based German Institute for Economic Research (DIW). Mr Waigel's action, Mr Flassbeck complained, was "not sound". It was also "embarrassing" for Germany's relations with other EU nations "where Waigel has always posed as the pope of rectitude".

It was the near certainty that this year's public deficit would exceed the 3 per cent limit that forced Mr Waigel to resort to what many economists and opposition politicians have condemned as "creative accounting".

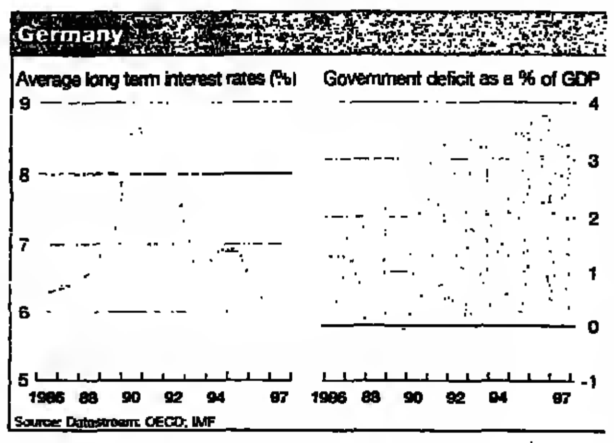
His plan envisages a revaluation of the Bundesbank's 95m ounces of gold reserves to a level nearer market prices from the present DM144 per ounce. In addition, the Bundesbank's $57.8bn of currency reserves, currently valued at the all time low DM-dollar rate of DM1.362, would be upvalued.

As the gold and dollar reserves are in the Bundesbank accounts at about DM60bn below market value, there is considerable scope for the bank to engineer an extraordinary profit that would be transferred to Bonn. There, it would be booked as a surplus in a special "redemption fund for historic burdens", that exists to pay off debts acquired through German unification. In a procedure that Bonn insists conforms with the letter of the Maastricht Treaty, the surplus would offset deficits elsewhere in the public finances.

Defending his plans, Mr Waigel said revaluation of the reserves was "not a trick". He pledged that it would be carried through with "all due caution" to maintain the financial solidity of the Bundesbank. Moreover, he claimed that the measure was in line with EU plans because a revaluation of national bank reserves was due to take place once the proposed European central bank began to operate.

But Germany's decision to pre-empt an ECB decision left what Mr Flassbeck described as a "very nasty aftertaste".

Germany



Source: Datastream; OECD; IMF

Facing the music: Theo Waigel, pictured conducting at the Aachen carnival, attracted criticism for revaluing reserves

However, there is no doubt that radical action was needed to keep the deficit below 3 per cent. Mr Waigel, alone among EU finance ministers and members of the Bonn cabinet, has been adamant that there could be no relaxation of the 3 per cent criterion: "3.0 means 3.0" became his mantra. On the other hand, Chancellor Helmut Kohl, has become increasingly insistent that the single currency should be launched on January 1 1999 and that Germany would be a founder member.

On the day that Mr Waigel outlined his plan to the Bundesbank leadership, the finance ministry's panel of tax experts forecast a total DM18bn shortfall for the federal, state and local authorities' tax revenues this year and a DM118bn cumulative gap in budgeted revenues between now and 2001. Moreover, Germany's higher than expected unemployment of around 4.3m is expected to add between DM10bn and DM20bn to federal expenditure this year.

The government's official forecast that the deficit would be 2.9 per cent of GDP was already perilously close to the Maastricht limit. It had, moreover, been published in January before it was known that unemployment had jumped by about 500,000 that month. Overshoots in the deficit to 3.8 per cent of GDP last year after 3.5 per cent in 1995 also suggested that this year's forecast was fragile.

Having already exhausted many options for cutting government spending, Mr Waigel had to opt between "fudge" or failing to meet the deficit criterion. Not surprisingly, he chose fudge.

The revaluation of reserves should also help eventually to reduce Germany's debt as a percentage of GDP. Germany's public debt rose from 58.1 per cent of GDP in 1995 to 60.7 per cent last year, putting the country in breach of the 60 per cent Maastricht limit. Although the margin of failure is narrow, the debt ratio has been rising rather than falling.

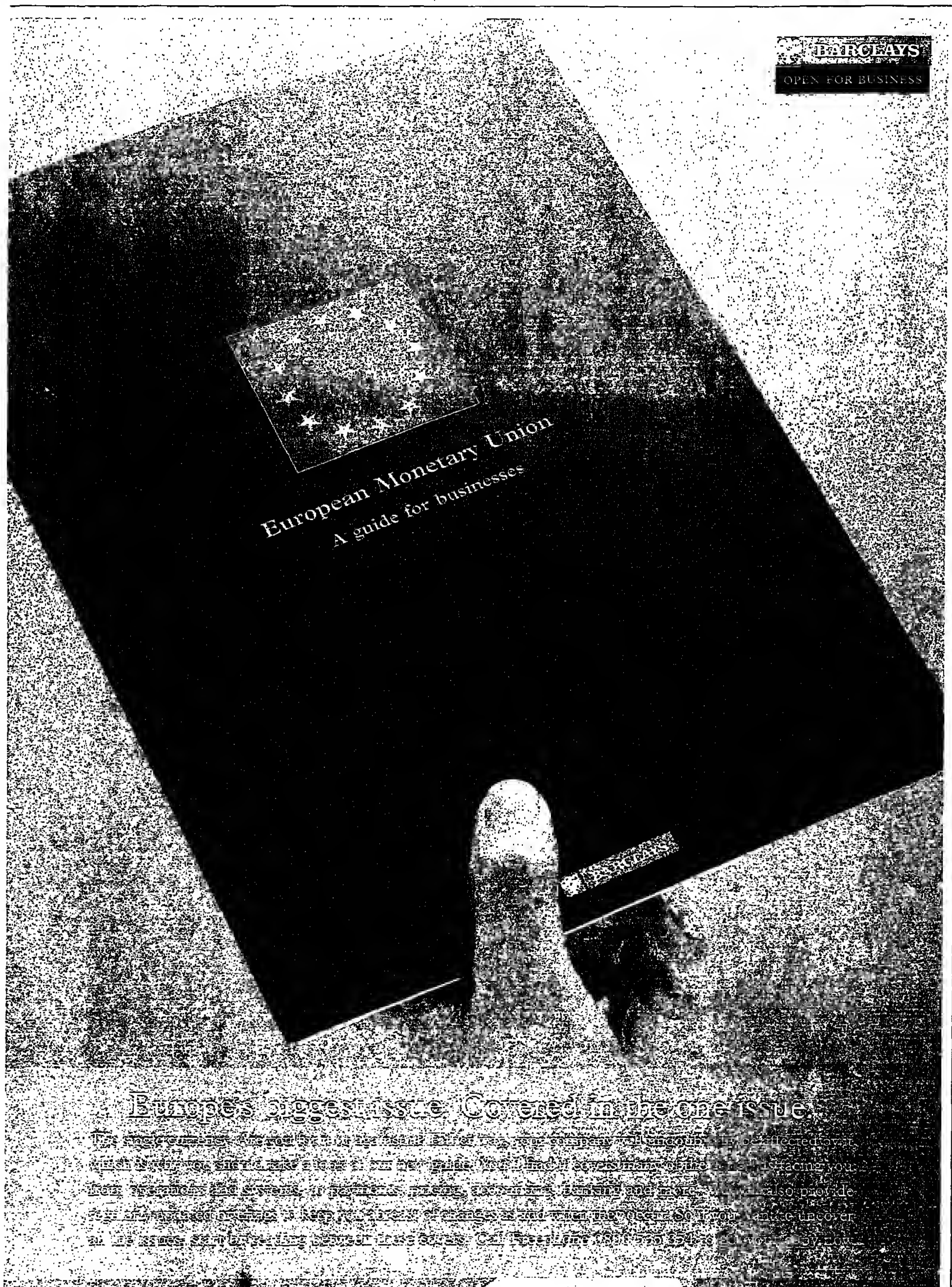
Among EU finance ministers there has been some willingness to tolerate this failure in the light of Bonn's huge task of absorbing eastern Germany. The costs, according to Mr Waigel, have contributed an estimated 17 percentage points to Germany's debt ratio.

It now seems as if Mr Waigel is determined to reverse the upward path of the debt ratio as a by-product of his plans to plug gaps in the federal budget. Privatisation – the proceeds of which can be used to reduce debt but not deficits under Maastricht – will be stepped up.

The government has suggested the controversial step of selling some of its 74.8 per cent holding in Deutsche Telekom despite legislation preventing such a sale on the stock market before 2000. Also on the block are the German postal savings bank, several state owned property companies, federal stakes in Frankfurt, Hamburg and Cologne-Bonn airports and the remaining state holding in Lufthansa, the German airline.

By contrast, Germany has no need to act to meet the other Maastricht criteria. The average inflation rate of 1.3 per cent last year was comfortably below the guideline, as was the average long term interest rate of 6.2 per cent. Despite Mr Waigel's designs on its reserves, the Bundesbank is still the model of an independent central bank in its execution of monetary policy. There are no worries about the D-Mark's position in the exchange rate mechanism of the European Monetary System.

Germany therefore now seems certain to meet the Maastricht criteria this year. But Mr Waigel's ingenuity in depressing the deficit raises the serious question as to whether such an achievement is sustainable.



NETHERLANDS • by Gordon Cramb

Logical conclusion to a close relationship

A long and stable link to the D-Mark makes participation inevitable

If the single currency holds few fears for the Dutch, there are two main reasons. The guilder has been tightly pegged to the D-Mark for the past 14 years, during which time the Netherlands has prospered from that precursor to monetary union. And Mr Wim Duisenberg, their central bank governor throughout the period, moves soon to Frankfurt to pave the way for the introduction of the euro as head of the European Monetary Institute.

In 1946, Marius Wilhelm Holtrop, the first postwar holder of the office Mr Duisenberg now leaves, was an early advocate of a strong and sound guilder which in time would merge into one European currency. Decades later, his vision gained more concrete form within the otherwise troubled European Monetary System, where since 1983 the guilder has been the only currency to stay within a maximum 2.25 per cent divergence from the German unit.

A stable link to the D-Mark was and is important for the Netherlands, as its large eastern neighbour accounts for nearly 30 per cent of its foreign trade. With a home market of just 15.5m people, trade has been the country's lifeblood for centuries. And as two-thirds of Dutch imports and 80 per cent of exports occur within the European Union, the prospect of being able to forget exchange rate worries in its dealings with another half dozen or more countries is of clear appeal.

Mr Paul Ribourdouille, a director of ABN Amro, the country's biggest banking group, points out that a multi-currency EU adds an estimated Fl2bn a year to the costs of Dutch business. As the one-off bill for making the changeover is projected at Fl 5bn, "the direct yield of the euro introduction does not look bad".

He adds: "Dutch exporters have at least one good reason to look forward to it: wage restraint made exports very competitive, and now this cannot be eroded by devaluations undertaken by major competitors."

Holding back wage rises in return for job creation formed a main pillar of a social pact agreed in the early 1980s. Together with reforms to the country's traditionally generous welfare system, it created the conditions which have brought rapid improvements in Dutch state finances in the last few years. The country has just been removed from the Brussels list of countries running excessive deficits. Among the Maastricht criteria for eligibility to join the euro zone, only government debt remains out of line, but is coming down. If Emu goes ahead as planned, the Netherlands' participation seems assured.

Public debate over the desirability of surrendering the guilder into a single currency never really happened – but some belated noises have recently been made. Professor A H Kleinknecht, research director of the economic and social institute of the Free University of Amsterdam, was one of more than 100 Dutch economists who this year signed a document calling into question Emu in its currently envisaged form.

He is no Eurosceptic in the British sense, warning instead: "The project means taking out a mortgage on unification." The risks are more real than the rewards, he argues, when the EU has

Continued on facing page

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UK and IRELAND • by Robert Chote

Less hostile, but still very doubtful

UK is unlikely to join in the first wave despite bank independence. Ireland is in favour politically

When Britain's newly elected Labour government announced in early May that it was handing control of interest rates to the Bank of England, financial markets took this as a signal that the country was now much more likely to join a single European currency in the first wave than it had been under the Conservatives.

The probability placed by financial markets on Britain joining Germany in a monetary union jumped to 50 per cent after the announcement, compared to 35 per cent a week earlier, according to an analysis by investment bank JP Morgan of interest rate swap rates.

In London, however, the finance ministry took great pains to disabuse people of that opinion. Officials said the announcement of central bank independence could be seen as an alternative to joining a single currency, rather than a precursor. After all, they pointed out, the new arrangements only give the Bank part of the independence which it would require to meet the Maastricht treaty rules.

The Labour government is clearly much less hostile to economic and monetary union than its predecessor. Within the party, opponents of British participation hold their views with much less venom than their Conservative counterparts.

But Mr Tony Blair, the prime minister, has no intention of letting arguments over a single currency debilitate his government during its early years. Senior ministers have therefore stuck to a common public line, arguing that it is "very unlikely" that Britain will join the single currency in the first wave.

Notwithstanding the flurry of excitement that followed the granting of independence to the Bank of England, outside economists take the Labour government at its word. A recent Reuters poll of 49 economists across Europe found none that expected Britain to sign up to a 1999 start date for Emu. The respondents to the survey, carried out during the fortnight following election day, said on average that there was only a one-in-five chance of Britain being in the first wave.

Mr Ernst Welteke, a member of the Bundesbank's policy-making council welcomed the move to give the Bank of England graater independence, but he warned that the UK could not be in the first wave of countries joining Emu because it had not rejoined the European exchange rate mechanism. But the UK Treasury disagrees, arguing that the widening of the permitted fluctuation bands in the ERM during 1993 means that having a relatively stable currency outside the mechanism fulfils the spirit of that requirement.

The UK is also relatively wall placed to satisfy the economic criteria laid out for Emu mamhership in the Maaatricht treaty. As regards the key requirement for a public sector deficit of 3 per cent of GDP or less in 1997, the European Commission predicts a figure of 2.9 per cent with the International Monetary Fund expecting 3.1 per cent.

But the signals from the Labour government will do nothing to encourage companies and financial institutions in the UK to prepare for sterling's possible participation. This would pose a big problem if the government makes a surprise decision to join, in the same way that it has made a surprise decision to reform the central bank. The Bank of England has already warned, for example, that some UK-based banks have become "complacent" in their preparations for Emu.

Across the Irish Sea there is a much firmer political consensus in favour of early Emu entry. Both principal political parties in Ireland appear committed to entering in the first wave, with the central bank supportive. A European Commission survey last year found two-thirds support for entry among the population, second only to Italy. Business is similarly enthusiastic.

Nonetheless yields on Irish government bonds indicate lingering scepticism, with 10-year bond yields trading almost a full percentage point above their German equivalents in mid-May.

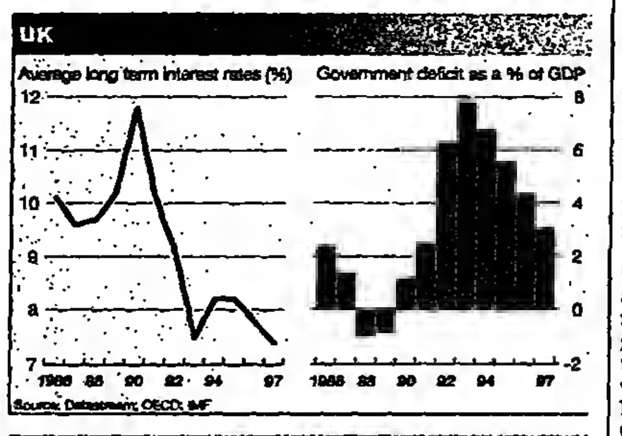
The Irish punt's recent aharp dapreciation against sterling, and the related decision by the central bank to raise interest rates, has brought the difficulty of securing economic convergence into sharp focus, according to economists at UBS, the Swiss investment bank. But they argue that "providing tha monetary union goes ahead on schedule and that Ireland meets the Maastricht criteria to the letter, our view is that Ireland will be a member of the first wave of countries in monetary union".

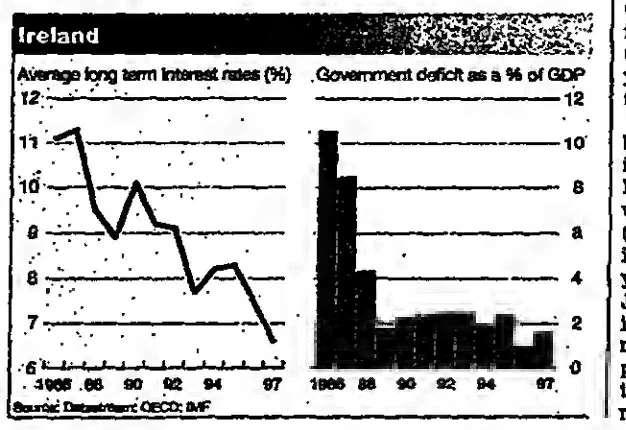
On most forecasts Ireland is set to meet all the Maastricht criteria for participation next year, assuming that its debt-to-GDP ratio is deemed to be falling towards tha 60 per cent target sufficiently quickly.

But the economic consequences of Irish participation in a single currency depend to a considerable degree on whether Britain participates as well.

If only 6 to 8 core countries join up, then Ireland may end up joining a currency union comprising countries that account for barely a quarter of its external trade. Ireland could face problems if the single currency were to rise or fall significantly against a sterling that stayed out.

Gordon Brown: UK chancellor handed over control of interest rates





SPAIN and PORTUGAL • by David White

Outsiders on target

The criteria are being met in both countries with a surprising lack of pain

This time last year both Spain and Portugal were considered outside chances for inclusion in the group of countries to pioneer the European single currency. Now, in the view of most analysts, it would take some sort of market catastrophe to keep them out.

The London-based credit rating agency, IBCA, this month added both Iberian countries to the eight it now considered likely to be in the first wave.

Their progress towards meeting the Maastricht treaty criteria has been surprising in two ways. The first is their success in bringing down public deficit and inflation, contrary to many experts' predictions. The second is the relative lack of pain suffered in the process.

Neither government party – the Socialists in Lisbon, the centre-right Popular party in Madrid – enjoys the security of an outright parliamentary majority but there have been no political crises over annual budgets, nor any serious unrest or labour conflict over spending curbs.

At the same time, officials in both countries say they are already beginning to reap benefits from convergence, which has brought them more closely into line with cyclical trends in other European economies. Growth rates are accelerating, with a 3 per cent rise in GDP forecast in Spain this year, and 3.3 per cent in Portugal.

The Iberian countries have been anxious to dispel the idea that their fate, and Italy's, should be linked, which might mean delaying their entry even if they qualified on the basis of this year's economic results. Mr José María Aznar, the Spanish prime minister, baldly reaffirmed recently: "The problem of Italy is something only the Italians can resolve."

Neither country has any political interest in being considered part of a "Club Med", a southern European grouping subject to special conditions. Indeed, the Portuguese authorities insist they are ready to join at the beginning, even if Spain does not. Mr António Sousa Franco, the finance minister, says he is firmly opposed to any "commercial transaction" under which entry would be held up.

Both governments argue that each country must be considered strictly according to whether it meets the Maastricht criteria. "The treaty is very clear," says Mr Rodrigo Rato, the Spanish finance minister. "Those that fulfil the criteria get in, and those that don't stay out."

While both countries have public debt levels exceeding the target 60 per cent of GDP – 68 per cent in Spain's case, 64 per cent in Portugal's – they are confident that this will not stand in the way of qualification, and that the trend is towards a reduction.

They would currently meet three of the five entry conditions for the euro – currency stability, long-term interest rates and inflation.

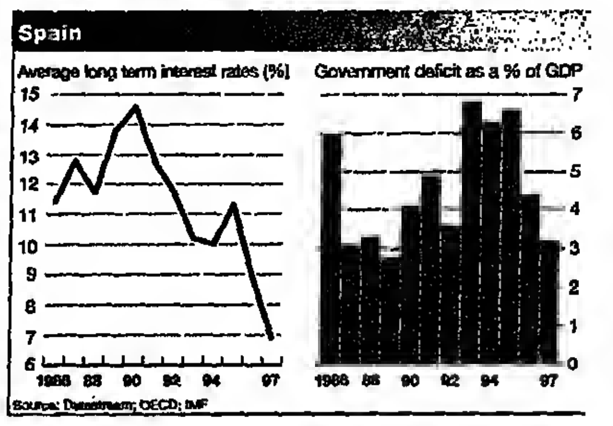
Harmonised inflation figures for March published by Eurostat shows Spain, with an annual 2.2 per cent, and Portugal, with 2.3 per cent, within the target range, compared with the European Union's best performers. These are still among the highest rates in the EU, but with the trend coming closer to the average, both countries now have some leeway.

Portugal's past record of lax policies has until now tended to overshadow a relatively steady process towards controlling both inflation and government finances. Its central bank says its record in meeting deficit targets has been remarkably consistent, with only one overshoot in the last 10 years. The present government, in power since 1995, has been able to reduce the deficit further through improved tax collection, rather than cuts in spending.

Confidence has been steadily growing in the financial sectors of both countries that they will pass the qualification test.

Portuguese banks have, however, been relatively sluggish in gearing up for the changeover. No decision has been reached about when they should begin to offer accounts denominated in euros. In Spain these are due to be available from the outset in January 1, 1999. Promotional campaigns to prepare Spaniards and Portuguese for the currency change have also fallen behind schedule.

More serious is the lack of debate about the challenges that membership of a single-currency bloc will present, especially in the face of increased competition within an enlarged EU. The temptation for governments to postpone important reforms, such as welfare and health, for fear of incurring public clashes and upsetting financial markets in the run-up to the qualification deadline, makes these challenges all the more formidable.



not, for example, first brought about a harmonised tax system among member countries. Governmenta which under Emu will be deprived of exchange rata policy as a mechanism to attract capital would be tempted to intensify tax competition instead.

The Hague moved to do just that in its budget for the current year, offering more favourable treatment to the financing arms of Dutch and other multinationals in order to draw operations back from countries such as Belgium and Ireland.

But officials argue that fiscal harmonisation is occurring anyway through the market.

Equilibrium would thus result between countries which have a narrower tax base but levy higher percentage rates, and those where the net is wider and the rates less punitive.

The trouble with the Dutch fiscal edifice, though, is that it is both high and wide. A report by Rabobank, the country's large co-operative institution, warns: "Not to be overlooked are the weaker areas which will also be highlighted under Emu. These include the increasingly choked transport infrastructure and the relatively high tax burden." Such factors would influence inward investment decisions by companies outside the single currency area. The domestic economy could meanwhile be hit by a bulge in interest rates and inflation, both of which are currently well below the EU average.

While the big Dutch banks factor these into their economic predictions – and take a leading role in attempting to educate their customers about what they should do about Emu – they are carefully positioning themselves for their own place in the new order.

ABN Amro's strategy has involved establishing a presence in all member states, a mission achieved last year. "Clients will expect the same range of services in every member country and under the same conditions," says Mr Ribourdouille. The Netherlands has one of Europe's most efficient systems for domestic funds transfer, and he sees opportunities for the bank in improving the cross-border payments system.

ING the other main domestic rival, intends to become an important player in trading the new currency. Otherwise its 17 per cent share of the guilder foreign exchange market would be diluted to just 1 per cent of euro dealings.

The group hopes to offset the disappearance of dealing room cross-trading by becoming stronger in European corporate finance, and will boost its presence "if necessary through alliances," says Mr Aad Jacobs, chairman.

But are their domestic clients ready? Far from it, the banks believe. "Only the multinationals are making adequate preparations," says Mr Ribourdouille.

At Philips, Europe's biggest consumer electronics group, Mr Dudley Eustace, vice chairman, told shareholders this spring: "In 1999-2002 we will have to run our accounts in euros and national currencies. We run them in many currencies anyway. The millennium [computer problem] is more a source of effort and money – that date does not move even if the euro does. We are piggybacking the two, but it will cost several hundred million guilders."

For the rest, a recent survey by Moret Ernst & Young, Dutch arm of the international accounting firm, concluded that "Dutch business has not really geared up for the euro". Of

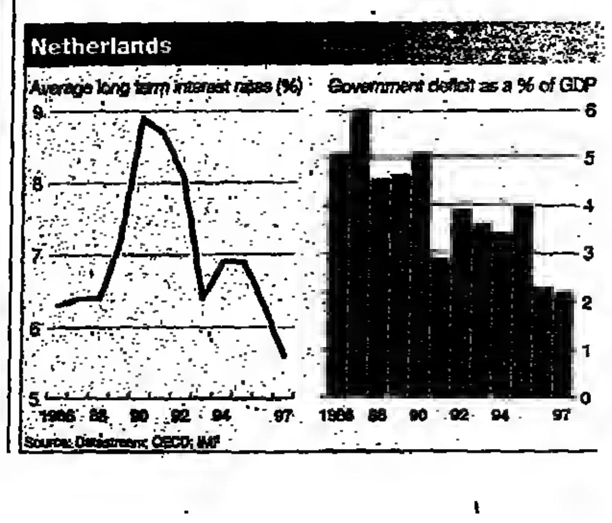
> "Only the multinationals are making adequate preparations" – ABN Amro

547 respondents employing 10 or more people in the non-financial sector, only 6 per cent said they had taken measures to prepare themselves.

Some 68 per cent believed its arrival would have only a moderate to limited effect on their company.

Charged with dispelling such illusions and chivvying the process along, a national forum was established more than a year ago. And only one development could swing the Dutch against the single currency project.

Any attempt by France to impose a Paris political appointee as head of the European central bank instead of Mr Duisenberg would have the Dutch rattling noisily at the exit door – though with little conviction that the guilder could sustain a life of its own outside the Emu bloc.



PREPARING FOR EMU - THE BUSINESS PERSPECTIVE

On 25 June the FT will be holding a breakfast seminar hosted by Quentin Peel, Foreign Editor and Wolfgang Munchau.

The Breakfast Seminar will examine how EMU is likely to impact business and how European companies are preparing for it.

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FINANCIAL TIMES
No FT, no comment.

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	Number of companies	Market Cap $bn	Fund Management Groups	Sell side Analysts
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UK Smaller Company	750	115	100	1,224
Continental European Larger Company	350	2,374	100	2,756
Global Emerging Market Company	1,200	688	150	1,689
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FRANCE • by David Buchan

Centralised system ready for big bang

But the national election campaign has intensified the political debate

France is finding it far easier to prepare itself technically than politically.

The close-knit nature of the country's financial establishment, coupled with e national tradition of centralised planning, means that France is highly likely to be ready on time for a big bang switch to the euro in 1999, in the same way that France has successfully met similar challenges in the past to huild nuclear weapons, a epace programme or high-speed trains.

But the current election campaign has again turned economic and monetary union into something of a political foothall. This is despite President Jacques Chirac's claim that one of the reasons he called the parliamentary election before its due date next March was to avoid domestic politics disrupting the key European Union decision next April-May on which countries would qualify for the euro in 1999.

The Emu issne still cuts across both left and right in France. Bnt the debate has changed, chiefly because the views of the Socialists have changed since their President Mitterrand signed the Maastricht treaty in 1992 and since the party went into opposition in 1993. Over the past four years, the Socialists have had the dehate they never really had under Mr Mitterrand, who imposed Emu on them. Though they still support the euro in principle, they now pose the following conditions which also find an echo among many of their centre-right opponents:

● France should still aim to cut its overall public deficit to 3 per cent of national outpnt this year, but this target does not have to be met on the dot because the treaty allows some political leeway. The Socialists are not alone in suspecting that the reason for Mr Chirac's snap election is to peve the way for another centre-right government to introduce more eusterity this eutumn.

● Emu ehould promote growth and jobs, and that to this end EU governments should be able to exercise some political influence over the independent European Central Bank (ECB). The Juppé government has already displayed some of the same concerns, hnt has had little success in getting the Germans to accommodete them. The Germans have accepted the French Idea of Emn-participating governmente forming a "Council of Stability and Growth", hut only as an informal body co-ordinating economic policy in support of the monetary union, and not exercising leverage over the ECB. Residual French restiveness about the ECB is shown in the fact that Paris does not accept that Mr Wim Duisenberg, the Dutch president-to-be of the European Monetary Institute, who is regarded as very close to the Bundesbank, should now automatically be regarded as the first ECB governor.

● The euro should not be over-valued against the dollar. The French not only harhour higher hopes than other Europeans for Europe to he able to use its euro to reach a more orderly currency arrangement with the US and Japan. They are also more prone to fears that the euro might price them out of markets where, especially in aircraft, arms and agriculture, they compete head-on with the Americans. These fears have already heen voiced on the right, particularly by Mr Edouard Balladur, the former Gaullist prime minister, and Mr Valéry Giscard d'Estaing, the former president.

● France should not move to the euro without Italy and Spain. This condition harks back to the French fear that, at least at the start of Emu, it might be the only Latin or half-Látin country in what would otherwise be essentially be e D-Mark zone.

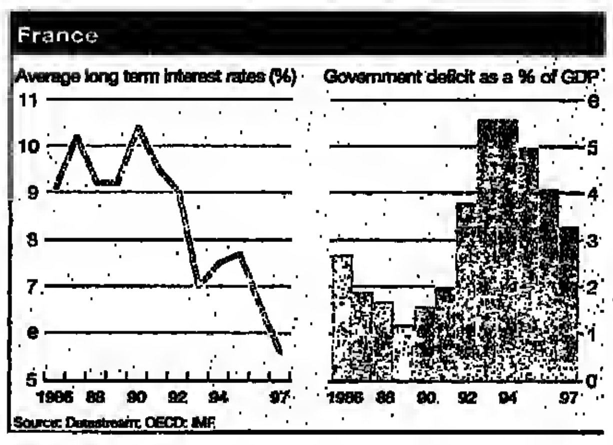
It is also the condition that is least negotiable with Bonn. For, it is one thing to *hope* that Italy and Spain can qualify as founder-members of Emu, it is qulte another to *insist* that they do. Yet, many in the centre-right are worried not only about heing alone in e D-Mark zone, hut also about French trade being undercut by cheap Italian and Spanish goods priced in depreciated currencies outside Emu. For instance, Mr Franck Borotra, the Gaullist industry minister, makes no bones about the fact that this was one of the reasons why, in the 1992 referendum, he voted against Maastricht.

However, during the election campaign, the centre-right has suppressed its sympathies with some of these Socialist points, lamhasted the Socialists for wohhling on Emu to curry favour with their Communist and left-wing electoral allies and partners, and etoutly maintained that France is bang on course to meet the 3 per cent deficit/GDP target this year and to stick to it next year. With the pick-up in the economy providing more tax revenue and budget spending being cut slightly in real terms, there is no reason why this target should not be met, though the difficulty of reining in welfare spending leaves a bit of dooht.

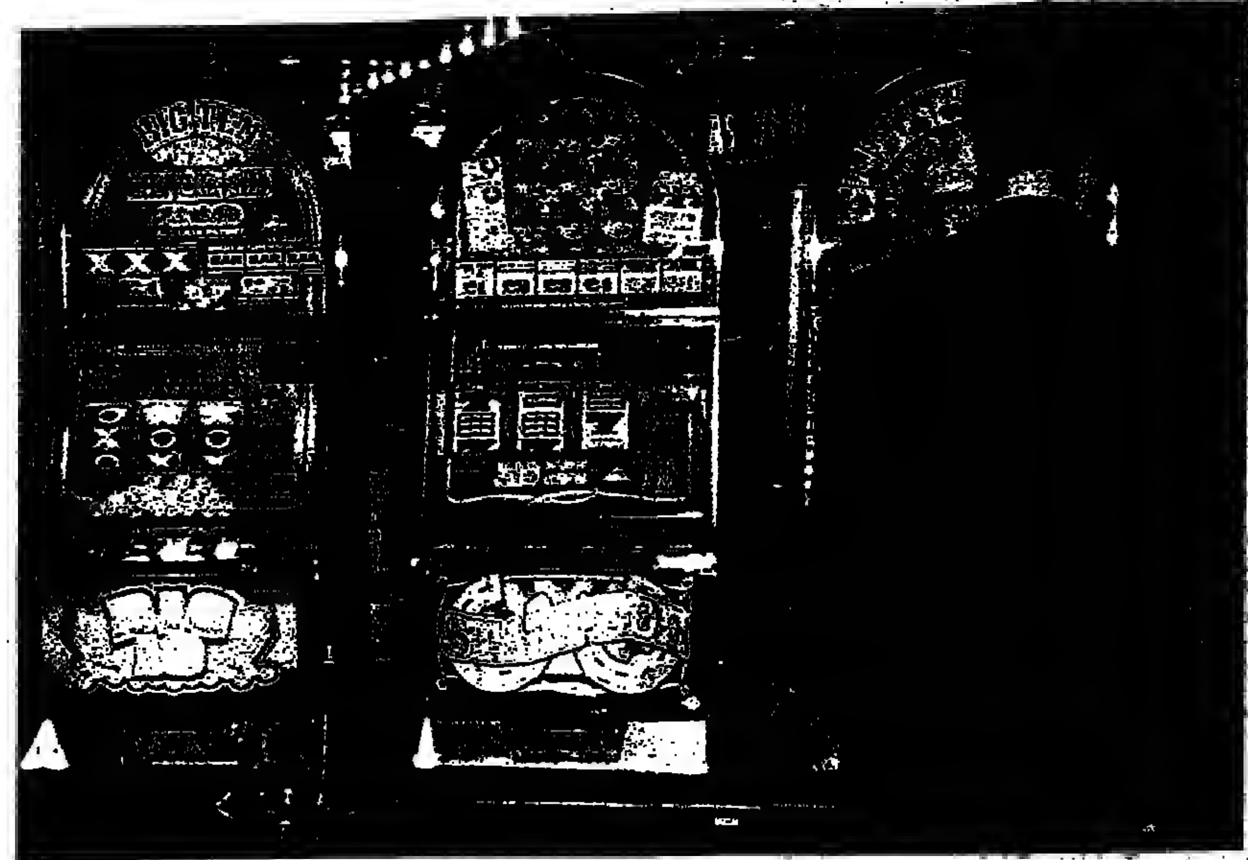
The Paris financial markets have chosen to banish euch doubts from their minds in ploughing on with their preparations so that on January 4, 1999 – the first trading day in that year – all money, bond, stock and foreign exchange markets will switch to the euro. The Bank of France, the various market authorities, commercial banks and stockbrokers have pnt together e masterplan for the switch.

Paris is going for an across the board switch, partly to avoid discrepancies or distortions between different markets, partly to avoid credit institutions having to make too many internal conversions according to different categories of assets and liahllitiee, and partly to exploit its technical investments.

Bonde and shares have traded in Paris electronically for the past decade, without any exchange of paper. The Sicovam electronic system keeps track of shares, while the Relit system settles share transactions once a day; with the introduction this August of the Relit Grande Vitesse system, share transactions will be settled continuously. This compnterisation makes an instantaneous switch to the euro easier technically than it would be in centres etill passing paper back and forth. Meanwhile, the Transferts Banqne de France (TBF) eystem, the French component of the new wider Target network linking central and commercial banks across the Emu zone, is due for trial runs this autumn.



BUSINESS • by Stefan Wagstyl



Winners and losers: slot machine manufacturers will benefit from conversion to the euro; for operators it will be a huge cost William Murray

Adapt and survive

Companies with a high exposure to EU exports will be the most obvious beneficiaries

For business, the prospect of European monetary union creates prohlems and opportunities in equal measure. However, these prohlems and opportunities are not equally spread: some companies will benefit hugely, others will run into serious difficulties. At the extremes, Emu millionaires and Emu hankruptcles will hoth abound.

The simplest example is slot machines: mekers of vending and gambling machines are looking forward to a surge in orders to convert existing equipment to euros. From Monte Carlo to Blackpool's Golden Mile, there are thousands of contracts to he won. However, for slot machine operators the euro means nothing more than extra investment.

On e much larger scale, banks, retailers, and e host of other companies face big hills converting their operations to the euro. Computer hardware and software are the largest items on a list that will include office stationery, seles literature and legal documentation.

BZW, the British stockbroker, estimates conversion could cost companies $25bn – half of which could be outsourced.

For software companies, technology consultants, accountants, lawyers and others this is a potential bonanza. While some spending will spread over a decade or more, much of it is likely to come soon, as companies prepare for the planned launch of Emn in January 1999.

Companies in countries which decide to stay out of Emu will not escape the need to prepare. As the Bank of England has warned British banks, systems will still need to be redesigned to cope with the Emu's arrival.

A survey earlier this year of the EU's top 300 companies hy KPMG, the accountants, found that only 20 per ceut had even estimated the potential cost of Emu. Only 8 per cent had set a hudget.

The biggest costs will fall on those companies dealing in cash with large numbers of customers, led by retail banks and stores. Companies in wholesale markets will face smaller hills, though they will not escape altogether. Consumers can expect that – one way or another – they will foot the bill for these investments. However, since the financial burdens will fall unequally they could also affect the balance of power within industries.

For example, in insurance, re-insurers, which operate mainly in wholesale markets, will probably have to spend less than those life end accident companies which deal directly with the public, whose client lists run into millions.

Expensive anomalies will abound. German insurers believe that many of their retail customers will want to deal in D-Marks during the 1999-2002 transition period. But large industrial companies may prefer to operate in euros from January 1, 1999.

Once companies have put themselves in a position to cope with Emu, many will benefit from the most obvious advantage of monetary union – lower transaction costs. The biggest beneficiaries will be those groups with the highest proportion of their revenues in different countries. The losers will be those with little or no cross-horder husiness. The winners will include those very large companies which are among the strongest supporters of monetary union, including BMW, the German carmaker, British Petroleum, the UK oil group, and Unilever, the Anglo-Dutch food and household goods combine.

Big non-EU companies with extensive EU operations such as Ford Motor and General Motors of the US and ABB, the Swedish-Swiss engineering group, would also benefit.

But not all big groups will benefit. Domestically-oriented companies such as electricity and water utilities will gain little from cuts in international transaction costs. But with millions of small eccount customers they will face particularly heavy computer conversion costs.

For smaller companies the outlook is less clear. In general, very small companies, employing under 100 people, are unlikely to be the biggest beneficiaries of cuts in transaction costs since many serve local markets. Shopkeepers, private hotel and restaurant owners, and laundry operators all have little to gain from Emu. The same is true for local business services companies such as recruitment agencies.

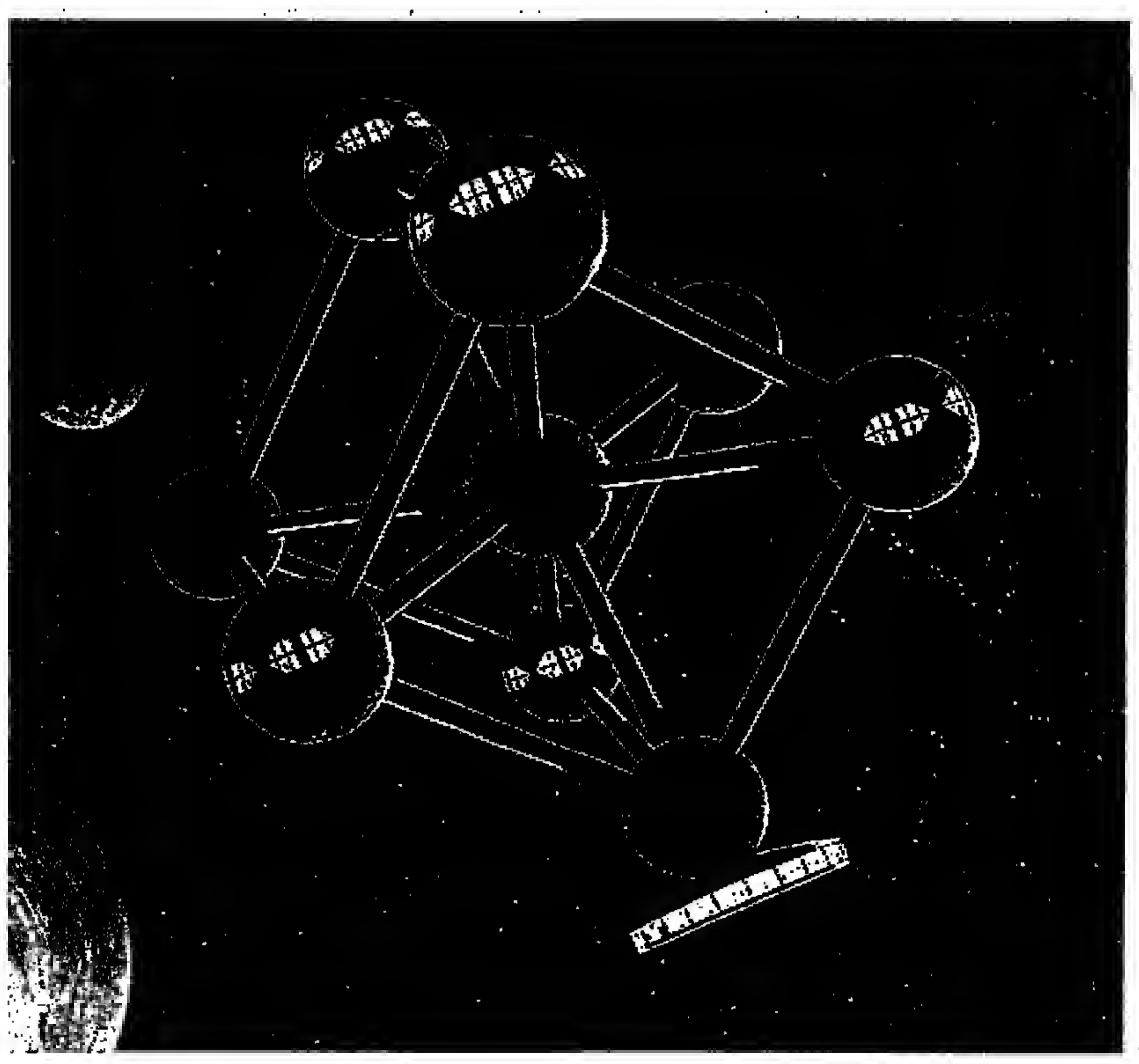
However, even among the smallest businesses there is an important minority of potential winners – manufacturers with a high exposure to export within the EU.

These are often high-technology companies producing a epecialised product for international markets. They want an end to the uncertainty which dealing in currencies brings. Unlike bigger manufacturers they have little scope to manage currency swings hy switching production from one country to another.

Beyond these considerations looms the much larger question of economic stability. If monetary union bring greater economic stability then virtually all businesses should benefit from e reduction in risk and uncertainty.

Borrowing costs should fall if the climate becomes more predictable. The winners could be companies with long-term investment projects with long payback periods. The losers could be companies which have in the past relied too much on short-term profits from currency swings and the like.

However, this does not necessarily favour a particular industry or size of company. The winners will be those who adapt most successfully to the Emu world.



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BANKING • by George Graham

Maintaining momentum

There are striking variations in banks' practical readiness for monetary union

With barely 400 working days left before the arrival of the euro, European bankers are starting to show signs of nervousness about the practicalities of introducing the new currency.

Most European banks have carried out months, or in some cases years, of planning, drawing up scenarios to prepare for variations in the list of countries which will join the monetary union, in the timetahle for the euro's introduction, and in the precise rules which will be laid down on issues such as conversion rates and dual price labels.

Now, however, they want to narrow their scenarios down so that they can start taking practical measures to adapt everything from computer systems to cash tills.

"We have been doing our scenario planning for e couple of years now, but this is the point when we need to move from planning into implementation, and we still don't know which scenario to beck," complains one continental banker.

Panic is still a long way off, hut some of the early confidence that European banks would be able to take Emu in their stride has now begun to erode.

"I realise we shall get some news in 1998, but time is flying, and it takes time to change computer systems," warns Mr Knud Sorensen, chief executive of Den Danske Bank. Danish banks can, at least, be confident that their country will remain outside Emu, at least in its early phases. British banks, too, have almost all concluded that the UK will not be in the first wave.

That may reduce their need to prepare for the mass introduction of a new currency to their retail customers, but it does not spare them the problems of preparing to handle the euro in their wholesale operations. This may be a simpler task than for banks in likely core Emu countries, who will have to prepare their systems to handle dual currencies from 1999 to 2002 rather than simply treating the euro as another foreign currency. It is not, nevertheless, without difficulties.

A London working group of banks, hrokers, lawyers, exchanges and settlement systems warned recently that final decisions on e range of ground rules for the financial markets needed to be taken no later than July 1 if market participants are to make the necessary systems changes in time.

These decisions include whether and how governments will redenominete their bonds and money market instruments after 1999; whether it will be possible to agree a marketwide convention on the right way for other issuers to redenominate their debt and equity; and how to maintain continuity for benchmarks such as the British Bankers' Association's Libor rates.

The London Investment Banking Association warned recently that it will be hard to maintain momentum for London's preparations if the Labour government does not send some signal to the business sector that British participation in Emu is still e real possibility, even if not in the first wave.

"If the newly-elected government does not convince husiness interests that the option to join Emu by 2002 is genuine, then commercial plans will he based on e prospect of indefinite non-participation," Liba said in a progress report on preparations for the euro.

Preparations of individual wholesale hanks vary widely, meanwhile. In a benchmarking study of ten London-based investment hanks carried out hy the Coba management consultancy, one bank had seven people on a permanent "euro project team", and has had taskforces running in each of 14 business divisions since the beginning of 1996. It has allocated e hudget of £80m to cover conversion costs, and aims to have completed its preparations six months hefore the single currency is introduced.

Another bank, by contrast, had no overall project team, no working groups, no implementation plan – not even a set of working assumptions on which countries are likely to be in the first wave of Emu.

In the broader universal banking arena, these variations are even more striking. Recent surveys show that most German and Belgian banks have their Emu preparations well in hand, with massive project teams totalling, in the case of Deutsche Bank, more than 160 people.

Preparations at French and Dutch banks, on the other hand, range from well-advanced to barely-started. Italian banks, besides the difficulty of knowing whether or not their country will join Emu, face the additional problem of preparing their computers for the first time to handle e floating decimal point, since the lira is dealt in integers.

But technical preparations, though daunting and costly enough in themselves, are only part of the story. Most banks are only just starting to think about the broader consequences Emn might bring to their business.

Although the second banking directive and e range of other European legislation should, in theory, have created e single financial market in the EU already, banking hes remained remarkably unintegrated. Apart from the efforts in the 1980s, since come to grief, of France's Crédit Lyonnais to buy a European retail banking network, few banks have ventured far outside their own borders.

Opinions vary on whether the introduction of a single currency will kickstart the single banking market. In theory, et least, the euro should make it easier for a bank to offer its services across borders, if enly because it will be able to use its domestic base of free or cheap deposits to fund its lending activities without fear of a currency mismatch. And if the market does become slowly more integrated, hanks may once again be encouraged to venture into acquisitions.

"There will be e consequence of monetary union which the politicians have not recognised yet: you will see a lot of mergers and acquisitions," said Mr Karl-Otto Poehl, former president of the Bundesbank and now managing partner of Sal. Oppenheim, the Cologne-based private bank, who warns that this could create political friction.

"You can't have a single currency and not allow a German bank to buy a French bank," he cautioned.

هكذا من الأصل

COMPANY CHECKLIST • by Michael Gardiner

Be prepared: the way forward for businesses

Emu will bring opportunities and threats. Companies must plan carefully

Michael Gardiner: "Ignoring ... implications is not an ..."

Companies across Europe have been promised many benefits from European economic and monetary union. The single currency is meant to provide lower interest rates and more competitive economies. It is also meant to encourage better integration of national markets, simplified financial management and elimination of exchange-transaction costs.

However, Emn carries with it significant risks for companies, and will require intensive preparation across all aspects of business activity.

Companies can choose whether to make the minimum preparations necessary for Emu – or whether in addition to work to obtain advantages from the market changes which will follow. But ignoring Emu, and in particular ignoring the systems implications, is not an option.

This article provides a checklist of the major questions which companias should ask themselves in the run up to the "paper" Emu in 1999 and the full single currency in 2002. Companies should define:

- their future vision of how they would operate in a euro environment;
- the opportunities and threats for each of their lines of business and countries of operstion as shown in the diagram below;
- very importantly, how they would handle the transition phase.

Time is now short before the introduction of the "paper" euro in 1999 and senior management should make Emn preparation a priority in the short-term to ensure that companies can cope with the euro.

Among issues to be considered by companies are:

- **Marketing and pricing.** Assess each of your markets to identify the way in which they will operate after the single currency is introduced: the euro will bring existing national markets closer together and in some industries will result in market restructuring. Review your pricing strategy, because it may not be possible to maintain price differentials between existing national markets. Consider how your competitors will react to the single currency: will they rationalise their operations? Work with your customers to agree a switch to euro purchasing and your switch to euro pricing. Find out when your suppliers wish to change to euro pricing.

If you publish price lists, consider how you will make the transition to the euro – for example will you reassess prices to set them at appropriate euro values (eg 99 cents, rather than a straight rounding). Consider lead times for Euro promotional material. Consider customer or supplier information programmes to deal with the changeover.

- **Systems and IT.** Identify the operational systems to be changed to deal with the euro. You will need to assess each operational system and decide which to modify, and assess the risks of systems failure to your business. This is a major task and needs to be started quickly. Identify which systems need special changes for the period when you may have to deal with transactions in either euro or an old national currency. Confirm that systems can cope with currency conversion and rounding rules (6 significant figures, 3 decimal points). Identify cash handling operations and consider what equipment and systems need to be changed. If you make use of electronic data interchange (EDI), find out what your trading partners are doing about Emu and ensure EDI systems can cope with the change. Identify all other external systems links involving currency transactions and ensure they are Euro compatible. Obtain appropriate IT resources and consider putting together your euro systems project and your year 2000 project.
- **Finance and payroll.** Decide when to change over your internal accounting to the euro. Decide when to change your payroll to euro (this is likely to be a year 2002 issue when coins and notes are available for retail use). Consider if your accounting will be affected by gains and losses between euro currencies which could crystallise in 1999. Identify when national and local governments will accept returns in Euro (this is likely to be closer to 2002 than 1999). Consider an information and training programme inside your company.
- **Treasury and banking.** Consider rationalising your banking relationships in the euro area (you may need only one bank for euro payments). Identify savings by the reduction of treasury operations, or by setting up some form of joint service organisation for euro invoicing. Consider how the euro will affect your balance sheet and currency management in your balance sheet. Identify any issnes on the redenomination of debt or securities in the rounding from old currencies to the euro.
- **Legal issues.** Investigate contract continuity, particularly outside the EU where the EU regulations confirming contract continuity may not apply. Consider changes to your staff employment contracts and pension arrangements. Review contract terms and conditions to see that the euro is adequately covered.
- **Longer term.** Review your operations to consider the advantages and threats of a single currency. For example, the existence of a large single currency area may lead you to consider relocating some operations there to avoid currency fluctuations.

Consider operational changes such as rationalisation of your supply chain to take advantage of a single currency.

The issues listed above show that the introduction of the euro will touch on all aspects of a company's business. To deal with these issues, many companies have put together a multi-disciplinary planning team. This team needs to address: a planning phase or impact assessment to agree the scope of the project; an options evaluation phase; obtaining agreement on the euro strategy; implementation of the preferred way forward.

Companies will need to take account of the emerging experience of dealing with the euro, and of tha advice being provided by industry working parties, the European Commission, the EMI and others. Good communication with customers, staff and suppliers is essential throughout. Time is now short for companies with operations in potential euro countries to begin planning their project and priority must be given to this issue.

Michael Gardiner is a partner in Ernst & Young Management Consultancy Services and a member of Ernst & Young's pan-European team to implement the Euro.

PROFILE: GERMAN SAVINGS BANKS • by Andrew Fisher

Deutsche Bank: one of the private sector banks in acrimonious dispute with the Sparkassen

Advice from the front line

The Sparkassen have the crucial job of selling the euro to sceptical customers

To millions of Germans, the sign of the big red S topped with a bold dot represents their closest link with the world of finance. This is the national emblem of the myriad local Sparkassen or savings bank branches which account for around half the domestic savings market – far more than any other banking sector.

With some 19,000 branches and 280,000 staff – 170,000 of them dealing directly with customers – the 624 savings banks have a spread of operations and collective market share which is the envy of the big commercial banks.

It is that penetration throughout the length and breadth of Germany which makes the savings banks so important in selling the idea of the euro. They handle around 40m giro accounts, mostly for small customers who are likely to turn to their local Sparkasse branch first for advice on what the single currency means and how to prepare for it.

Thus the prospect of European monetary union poses a huge challenge for the savings banks. Large sums are being spent on technical preparation, communications and training. But the Sparkassen are also having to face the strategic implications of Emu, which will change the nature of European retail banking by opening up the market to competitors across the continent.

In addition, the public banking sector – in which the regional Landesbanken act as central banks and providers of wholesale financial services for the Sparkassen – are locked in an acrimonious dispute with the private sector banks, headed by Deutsche Bank, Dresdner Bank and Commerzbank.

This centres on the way some of the Landesbanken, the largest being Westdentsche Landesbank in Düsseldorf, received capital injections a few years ago in the form of state housing development funds. The Cologne-based German banking association – representing 300 big and small private sector banks – has complained to the European Commission in Brussels about what it alleges are the distorting effects on competition of the favourable terms on which these funds were transferred.

The public sector banks, which deny the terms gave them an unfair advantage, have been backed by Chancellor Helmut Kohl, who is acutely aware that the savings banks have a vital role to play in putting across the idea of Emu to a German public which has not shown notable enthusiasm for it. The heads of Germany's regional states (Länder), with close ownership and commercial links with the Landesbanken, have followed suit.

Against this background, the savings banks have made their views clear to the government through the person of Mr Horst Köhler, a former aide to Mr Kohl and now head of the Bonn-based German savings bank association. They dislike being under fire in this way while also being in the front line when it comes to persuading people to accept and prepare for the euro. Thus the Commission has taken its time in dealing with this politically and commercially sensitive issue.

As yet, most savings bank clients have barely come to grips with the idea of the euro. They include numerous small and medium-sized (Mittelstand) businesses, many of them tied more closely to the domestic than the export markets. Some of the bigger companies with Sparkasse accounts have started making preparations but many of them are still hazy about the full implications of monetary union.

"There is a huge need to explain to people what monetary union means," says Mr Hans-Michael Heitmüller, a director of the savings bank association. "I doo't have to tell you how much scepticism there is."

Thus it has sent out more than 4m brochures with general advice and background on Emu, as well as more specific advice for businesses and local authorities. Last year, it held more than 1,000 meetings for customers, each with an attendance of several hundred. These dealt with general matters, such as the scheduled timing, purpose and procedure of Emu, as well as with matters of particular interest to Mittelstand companies and wealthier private investors.

The savings bank movement expects to spend around DM1bn alone on training staff and giving advice to customers. This is on the rough expectation that each customer will need 15 minutes of advice. It has also set up an extensive database by means of which any employee should be able to call up information about Emu on computer and communicate this to the enquiring customer.

As the planned starting date for Emu approaches, with the decision on actual membership due oext spring, people are expected to want more than just general advice and reassurance. They will want to know about the future of their savings, investments, insurance policies, pensione, loans, contracts and other financial relationships.

Mr Heitmüller says studies show that, so far, only about 20 per cent of German companies have started proper preparations for the euro. Among smaller firms with less than 200 employees, the figure is only 20 per cent. "No company can take the view – without harming itself – that 'the euro does not interest me'."

Even the very smallest companies can benefit from the single currency, he argues. Currency fluctuations hit small and medium-sized exporters especially hard, since they are more dependent on particular markets. They cannot spread risks between different markets and production sites as big corporations can. Thus the euro should improve life for small businesses by making it easier to calculate prices and costs across borders and opening up new sales opportunities.

As 1999 approaches, the savings banks will be pushing these arguments more forcefully throughout their scattered branch network. Yet Mr Heitmüller stresses that Emu must be built on stable foundations. "We are positive about mooetary union as long as we are convinced that stability is not being put into the background." The desperete accounting measures being used by several countries, including Germeny, to ensure they qualify for Emu, could stretch that conviction to the limit - both at the Sparkassen and among their customers.

LAW • by Geoffrey Yeowart

Building a solid euro framework

The City has welcomed the European Commission's legal proposals

Whether the UK opts in or out of monetary union, numerous types of contracts made in the London financial markets will be affected by the euro.

The City has pressed for a robust framework to ensure legal certainty and has broadly welcomed the European Commission's proposals. These proposals are contained in two draft EU Council regulations which were endorsed by the council of finance ministers in December 1996. The first will deal with the substitution of the euro for the Ecu, continuity of contract and conversion and rounding rules. The second will deal with the substitution of the euro for participating national currencies, transitional period arrangements, redenomination of debt, euro bank notes and coins and related issues.

Although both drafts are subject to a UK parliamentary scrutiny reserve, it is hoped that the first regulation will be adopted this year. The second regulation cannot be adopted until it is known in April or early May 1998 which member states will be the first to participate in the euro.

Particular attention has focused on contract continuity, private Ecu obligations and redenomination of debt.

The first regulation will be an important step towards clarifying the legal position on the key question of contract continuity. Article 3 will establish that the introduction of the euro will not have the effect of altering any term of a contract or discharging or excusing performance under a contract. Equally, it will not give a party the right unilaterally to alter or terminate a contract. This is expressed to be subject to whatever the parties may have agreed, so preserving freedom of contract. The parties will be free to agree any changes they choose to the terms of their contract, provided this is done by mutual agreement.

When the first regulation is adopted, it will become part of English law, even if the UK opts out. Although it will not be a universal answer to every potential problem, article 3 will be a major step towards achieving legal certainty on continuity. It will not obviate the need to review significant existing contracts which refer to the Ecu or a national currency likely to be replaced by the euro and which extend beyond January 1, 1999.

The disappearance of a currency, interest rate, exchange rate, screen page, pricing source, index or settlement system could affect a contract, unless an acceptable replacement is established to ensure continuity. Market associations are currently working on plans to provide successor price sources. Article 3 will not alter domestic contract law in jurisdictions outside the EU. This is important for derivatives as the majority of derivatives are governed by either English or New York law.

International law broadly requires states to recognise the currency of another, but there may be areas of uncertainty. The UK's Financial Law Panel is investigating the legal position in the main financial centres outside the EU. The International Securities Dealers Association (ISDA) and others have taken a leading role in sponsoring legislation to amend the general obligations law and the uniform commercial code in New York to remove any contract termination risk. Draft legislation is now before the New York State Legislature.

Similar state legislation has also been put forward in Illinois and California. The legal position is also being considered in other jurisdictions, including Japan, Hong Kong and Singapore.

The Ecu is widely used by the private sector in commercial transactions. The European Monetary Institute has estimated that, at the end of September 1996, 153.6bn of Ecu obligations were outstanding in the Ecu banking and financial markets. There has also been considerable debate on how these private Ecu obligations will be affected by the introduction of the euro. The reason is that the Ecu is not a currency but a unit of account based on a basket of 12 currencies. The euro will probably have a different economic value as only member states which meet the convergence criteria will participate. The euro may be "harder".

> The first regulation will become part of English law, even if the UK opts out

The legal position will be clarified when the first regulation is adopted. Briefly, this states that, from January 1, 1999, every reference in a legal instrument to the Ecu (as officially defined) will be replaced by a reference to the euro at the rate of 1 euro to 1 Ecu. It also contains a presumption that, where a contract refers to the Ecu, without this definition or any definition at all, the parties intended to refer to the official Ecu, with the result that the 1:1 conversion rate will apply. The presumption is rebuttable if the parties intended otherwise.

The presumption is necessary as the types of Ecu clauses used in the financial markets vary. The most common, tha "open basket" clause, links the private Ecu with the value and composition of the official Ecu from time to time, provided it remains the EC unit of account. In some cases, the definition may not expressly refer to the official Ecu but is intended to be used as a parallel unit of account and is treated as such in the markets. In other cases there may be no definition of the Ecu at all, as in the case of Ecu deposits. In a few older cases a "specific basket" clause may have fixed the private Ecu to the value and composition of the official Ecu at a particular date. It is only this last type of definition which appears likely to fall outside the presumption. Most bonds with fixed Ecu definitione may have matured already, although this definition may still appear in certain derivatives.

The second regulation will empower a member state on or after January 1, 1999 to redenominate existing government debt issued in its own national currency under its own national law. One issue left open by the second regulation is whether a member state will be able to take measures to enable iseuere to redenominate existing private sector bonds or securitised debt traded in the capital markets.

Firm proposals are expected to emerge before the Amsterdam summit in June. It is expected that an issuer of existing debt denominated in the national currency of a participating member state will be free to redenominate it during the transition period (January 1, 1999 to December 31, 2001) if that member state takes steps to redenominate all or part of its own government debt.

There has been debate as to how far redenomination should go. There are et least three possibilities: simple redenomination (a change in the currency unit in which the nominal value of a debt security is expressed); renominalisation (a change in the minimum nominal amount in which e debt security is held after redenomination in order to achieve a round amount); and reconventioning (a change in the terms applicable to the debt security to reflect different conventions on such matters as calculating interest and frequency of payment). It is widely believed that the powers to be given to redanominate private sector debt under the second regulation during the transition period should be limited to simple redenomination.

It is far from clear whether the advantages of redenominating private sector debt during the transition period will outweigh the costs and disadvantages, unless a simplified procedure is available for doing so. It appears sensible to leave private sector issuers and (where their consent is necessary) investors to decide whether to redenominate, which they should be free to do even if the relevant member state has not redenominated its own government debt.

Unless voluntarily redanominated during the transitional period, all legal instruments existing at the end of that period will be automatically read as if references to national currency units were to euro units at the fixed conversion rate. It is contemplated that the rounding rules in the first regulation will also epply, although their scope of application needs to be clarified.

Although good progress has been made on the legal framework, more work is essential in this area. Working parties of practitioners are looking at the issues to find generally acceptable and practical solutions.

Geoffrey Yeowart is a partner of Lovell White Durrant, London, and chairman of the Euro working party of the City of London Law Society, banking law sub-committee.

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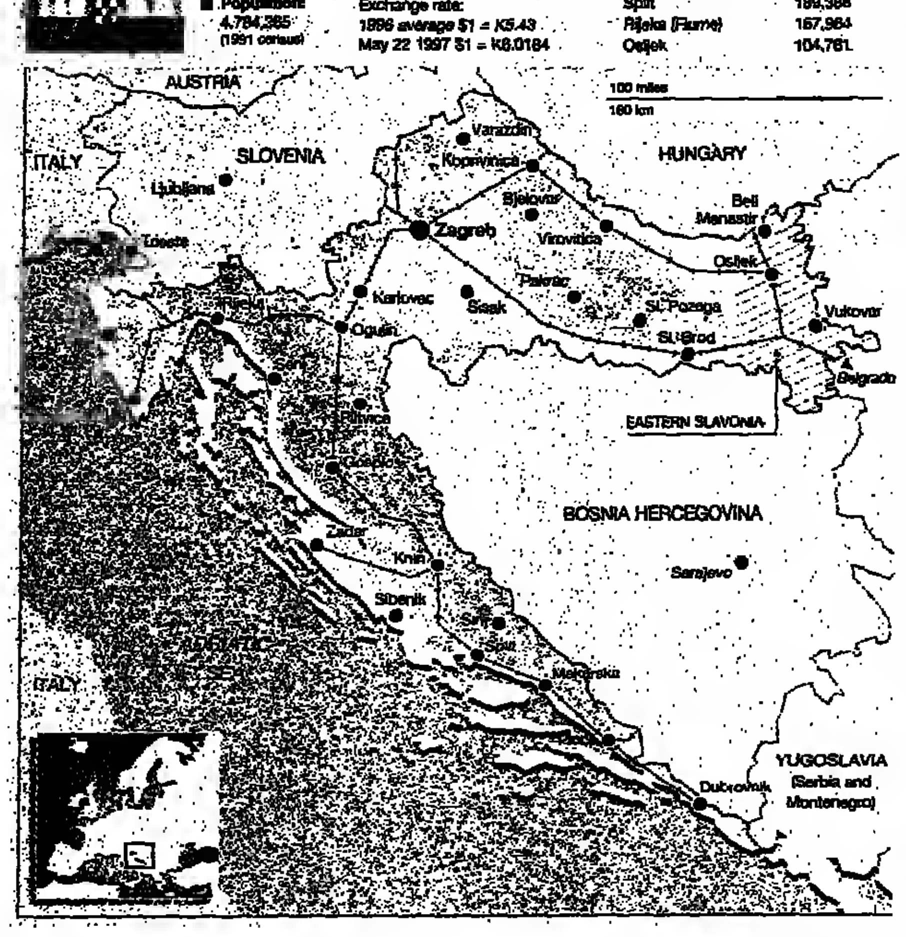
Croatia

The new state is secure, but the veneer of prosperity and democracy is still thin, write **Anthony Robinson** and **Guy Dinmore**

■ Area: 56,610 sq km ■ Population: 4,784,265 (1991 census)

■ Language: Serbo-Croat ■ Currency: 1 Kuna (K) = 100 lipa; Exchange rate: 1996 average $1 = K5.43; May 22 1997 $1 = K6.0184

■ Main towns & population (1991 census): Zagreb (capital) 706,770; Split 189,388; Rijeka (Fiume) 167,964; Osijek 104,761



■ **Head of state**
President of the republic, currently Franjo Tudjman, elected until August 1997

■ **National legislature**
There is a bicameral parliament, Sabor: the lower house is the Chamber of Constituencies (Zastupnicki dom); the upper house is the Chamber of Regions (Zupanijsko dom)

■ **National government**
Appointed by the president and confirmed by parliament. There is currently a single-party (Croatian Democratic Union) government, appointed on November 7 1995

■ **Legal system**
Based on constitution of December 1990, amended in 1992

Sources: EIU; Europa; Reuter

Economic summary

	1996 Estimate	1997 Estimate
Total GDP, nominal ($bn)	18.84	18.92
GDP, nominal, (Kuna bn)	91.1	101.8
Real GDP growth (annual % change)	4.0	6.0
GDP per head ($)	3,925	3,950
Inflation, average (annual % change in CPI)	3.6 [1]	4.6
Industrial production (annual % change)	3.5	5.0
Unemployment rate, recorded (% of workforce)	15.9	16.6
Foreign exchange reserves, December ($bn)	2,314 [1]	n/a
Budget balance (% of GDP)	-1.0	-2.5
Total foreign debt (% of GDP)	26.6	31.0
Current account balance ($million)	-1,323	-1,169
Merchandise exports ($million)	4,511	4,800
Merchandise imports ($million)	-7,000	-7,540
Trade balance ($million)	-2,489	-2,740

Main trading partners (share of total trade to world, 1996)

Exports		Imports
21.0%	Italy	18.2%
18.6%	Germany	20.6%
13.5%	Slovenia	9.9%
4.4%	Austria	7.7%

[1] Actual

National dream close to reality

The Croatian nationalist dream of a secure state within internationally recognised bordera, complete with its own currency, army and institutions, is about to be fulfilled. It was a dream which the nationalists said would only be realised wben there was "Croatian money in a Croatian purse, and a Croatian rifle on a Croatian shoulder".

They now have both, and the last piece of Sarb-occupied territory, Eastern Slavonia, is due to return to Zagreb's control soon after next montb's presidential elections.

Like Bismarck's Germany, Croatia gained its independence tbrough "blood and iron" after a hitter war in 1991-2 which initially pitted lightly-armed militia and nationalist paramilitaries against the full armoured weight of one of the biggest armies in Europe pressed into the service of greater Serb nationalism.

On June 15, President Franjo Tudjman, a former Titoist general turned nationalist historian who led the drive for independence in 1991, will almost certainly be re-elected for another five-year term. The "father of the nation" will he rewarded. A month later, when Eastern Slavonia is due to pass back under Croatian government control, those Serbs who elect to stay will do so as Croatian citizens.

This was a fate which many rejected when the disintegration of Yugoslavia left them as fearful minorities in a state which Serb propaganda portrayed as the linear heir to the wartime fascist Ustasha regime. But, six years after the Serb-dominated Yugoslav Peoples Army (JNA) helped Serb rebels carve tbeir own statelets ont of the new Croatian state, the balance of power in the region has changed dramatically. The JNA is a dispirited shadow of its former self; President Slobodan Milosavic remains internationally isolated and internally besieged; the Serbian economy is virtually bankrupt.

The Serbian nationalist ambition of carving out a greater Serbia has not simply failed: it has left Belgrade in a position where it has to seek a political and economic accommodation with Croatia.

This is the measure of the Croatian success. It might have been even greater if Mr Milosevic and Mr Tudjman, the two warlords, had made a political deal in 1991. But, with benefit of hindsight, a deal which permitted separation without bloodshed was probably beyond reach in the emotional maelstrom which both men had stirred up.

Mr Tudjman's first success was to keep the rump of the country together when it was virtually defenceless. The turning point was the 1994 Washington agreement with the Clinton administration, when Zagreb agreed to give up its ambitions to partition Bosnia with Serbia. Instead, it pledged to co-operate with the Bosniac Moslems and work for a sovereign Bosnia in return for US political support, inclnding help with the equipment and training of an effective modern army.

Two years ago, that army routed the JNA and Serh militias, forcing them first out of occupied Western Slavonia and then out of the "military Krajina" regions of western Croatia in a blitzkrieg "Operation Storm".

An estimated 200,000 Serbs fled lands their forefathers had populated over 200 years ago as peasant soldiers defending Christandom against the Turks. International opinion, which remembered Serb aggression at the start of the war, hardly protested at the latest "athnic cleansing" – this time with Serbs as victims.

At mainly US insistence, President Tudjman then reined in the army, which was not permitted to sweep into Eastern Slavonia to complete militarily the "liberation" of all the occupied territories. This prevented what would almost certainly hava been another hloodbath of revenge killings.

Instead, the fertila, oil-rich, but badly war-damaged area was pnt under UN transitional government. For the past 18 months, US General Jacques Klein, backed by a 5,500-strong UN military and police force and considerable charm and diplomatic skill, has been arm-twisting, cajoling and re-assuring nervous Serbs. He has also played an important role in an international effort to get Zagreb and Belgrade to agree to ensure both a peaceful transfer of power to Croatia and a secure future for the Serbs who elect to stay.

Tha prospects of a smooth transition look reasonably good. Croatia's international image will be strongly affected by the outcome and by other lingering war-related issues. These inclnde the good faith of its commitment to a sovereign Bosnia-Herzegovina in partnership with the Bosniac Moslems and the level of its co-operation with the UN war crimes trihunal in the Hague.

Earlier this month, Zagreh sent a second suspected Croatian war criminal to the Hague. But this was only after Washington had made clear its displeasure at Croatian foot-dragging by instructing US representatives at the IMF to abstain on the vote which approved tha recent $500m, three-year standby loan.

Yet for all Croatia's political, diplomatic, military and economic gains over the first years of independence, the veneer of prosperity and democracy is, inevitably perhaps, still very thin.

Mr Tudjman, like Marshal Tito the former communist dictator whom he emulates, is an autocratic, vain man who loves the trappings of power. The new state is still awash in the distinctive red and white chequer-board national flag and nationalist rhetoric. This is used to deliberately intimidating effect in the newly-liberated areas where state-financed reconstruction of destroyed Croat homes is taking place.

In the Krajina areas of western Croatia, centred on Knin, the new and repaired Croat houses and villages now stand alongside the deliberately trashed homes of Croatian Serbs. The latter theoretically have the right to return to them, but they are made to feel very exposed and uncomfortable when they try.

Mr Ivan Svonimir Čičak, the feisty representative of the Helsinki Watch human rights organisation, provocatively describes Mr Jure Radič, the minister of development and reconstruction and reputedly one of the most hard-line nationalist members of the Croatian Democratic Union (HDZ) government, as "the minister for ethnic cleansing". His files are full of well-documented accounts of violence and deliberate destruction – much of it after the Krajina was re-taken by the Croatian army.

Mr Tujman's HDZ is a political movement whose symbiotic relationship with the Croatian state makes it more like the old communist party-state than a "normal" western-style political party. Its power is reinforced by state control over an outrageously pro-government electronic media.

Its influence is also magnified by an electoral system which ensures that votes wasted on smaller opposition parties, which fail to leap the 5 per cent parliamentary entry barrier, accrue overwhelmingly in favour of the largest party, the HDZ.

The evolution of events does, however, appear to be moving in the direction of a consolidation of democracy and certainly towards fundamental market-orientated reforms in the financial and economic sphere, although progress is patchy.

For 18 months, Mr Tudjman defied the voters and refused to accept an opposition figure as mayor of Zagreb, for example. In the end he cobbled together a majority by persuading two Peasant party city councillors to switch sides. But a similarly autocratic decision to change the name of the local football team from Dynamo to Croatia blew up in his face while he was being treated for stomach cancer in Washington's Walter Reed clinic last November.

Ontraged fans, calling themselves the "Bad Blue Boys", after the colours of Dynamo, surged into Zagreb's main square to protest against an underhand attempt by the government to silence Radio 101, the only independent voice in the electronic media.

The government backed down, promised a new licence and a better transmitter. But an angry Mr Tudjman promptly sacked the interior minister and other officials on his return to Zagreb.

Politically, the HDZ, which is riven with factions, is unlikely to survive in its present form beyond Mr Tudjman. The tough 75-year-old president appears to be in good form, but he may not be able to complete a second term. The former communist Social Democrats are emerging as the leaders of a still fragmented opposition.

By 1999, the date of the next general elections, a new coalition of moderate nationalists and free market reformers could well emerge to push for the centre ground and press on with Croatia's ambitious drive for entry into the EU and Nato and recognition as a central European rather than "Balkan" country.

The "rosy scenario" outlined here, however, depends crucially on greater respect for human and political rights in a land with little previous experience of democracy and of the ability of economic reforms to underpin the creation of a stable, prosperous and responsible middle class.

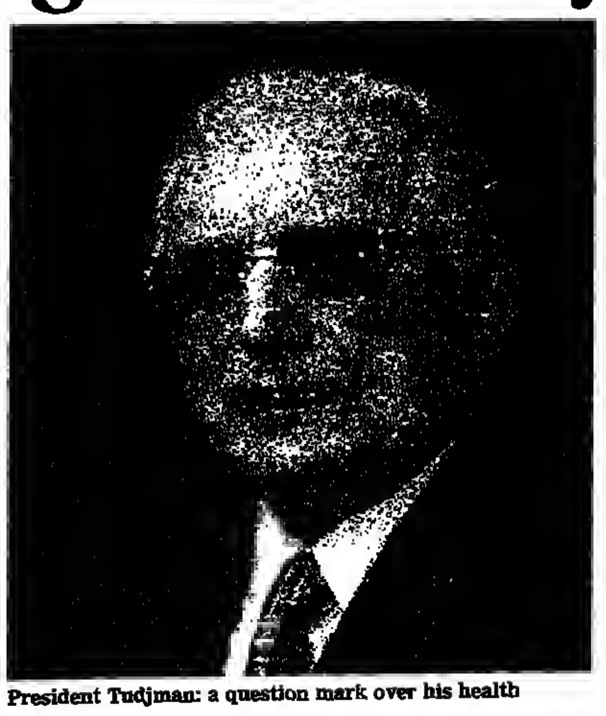
The economy is gearing up for sustainable 6 to 7 per cent annual growth and the economic and corporate sections of this survey indicate that reforms are indeed gathering pace. Bank and corporate re-structuring is entering a dynamic phase, foreign and domestic investment is rising, and the government is committed to legislation which would permit privatisation of utilities and other assets hitherto seen by the nationalists as inalienable "crown jewels".

The independence gamble seems about to pay off, but Croatia remains in a volatile area where men and events so often conspire to confound predictions.

POLITICS • by Anthony Robinson

Civil rights is a key issue

The HDZ still dominates, but opposition groups strengthen in towns and cities



President Tudjman: a question mark over his health

President Franjo Tudjman still dominates the political landscape of the new state, and on June 15 he will almost certainly ba re-elected for a new five-year term. The only doubts are whether he can win an absolute majority in the first round, as in 1992, and whether the old war-lord retains the strength to complete another full term after recent treatment for stomach cancer.

War and state-building occupied the first years of independent Croatia, but the agenda for a second term is expected to focus on domestic issues. The priorities are building a viable market economy and finding ways to ensure a future for the Croatian Democratic Union (HDZ). It was born in the heady atmosphere of nationalist revivalism and ethnic tension. It is doubtful whether it can survive long-term in normal peacetime conditions.

As presently structured, the HDZ – which is a movement, not a political party – dominates the state. It infiltrates its members into key positions in a way which is far closer to a communist-style party-state model than a conventional western-style political party.

But the future evolution of Croatian politics also hinges on the solution of outstanding war-related issues. As US President Bill Clinton made clear in a note to Mr Tudjman earlier this month, the ability of the Croatian government to guarantee the civil and buman rights of ethnic minorities and co-operate with the UN war crimes tribunal in tha Hague is seen by the international community, and Washington in particular, as a litmus test of the government's international raspectability. It is also a pre-condition for eventual entry into Nato and the European Union.

Significantly, however, Croatia's own Ombudsman has also started raising civil rights issues with the government, bringing it into the domestic, not just international, political sphere.

This is part of the avidence that Mr Tudjman intends to usa his second term to promote economic prosperity and international acceptability. To this end, he has given strong backing to the technocratic wing of his party which has already implemented a sncceesful stabilisation programme and is now pushing forward with a Hungarian-style privatisation programme.

This programma should see most of the economy in private hands by the turn of the century, and many of its most important banks, utilities, industrial companies and tourist facilities in partially foreign ownership. The government is also expected to press ahead with plans for a Chilean-style personal pension system.

This policy is proving popular with foreign investors but has yet to convince the country's urban voters. The HDZ did better than expected at local elections in April, but the polls also confirmed that HDZ support is concentrated in rural areas which gather their news and views from the state-controlled electronic media, a powerful instrument of political control.

Most of the main towns and cities voted for, and are now controlled by, coalitions of opposition parties, although nationally the effect was minimalised by lack of clear policies and personal rivalries among the five main opposition parties. This could change. The April elections showed that the Social Democratic party (SDP), led by Mr Ivica Račan and other former reform communists, is emerging as the main focus of opposition with over 20 per cent of the vote.

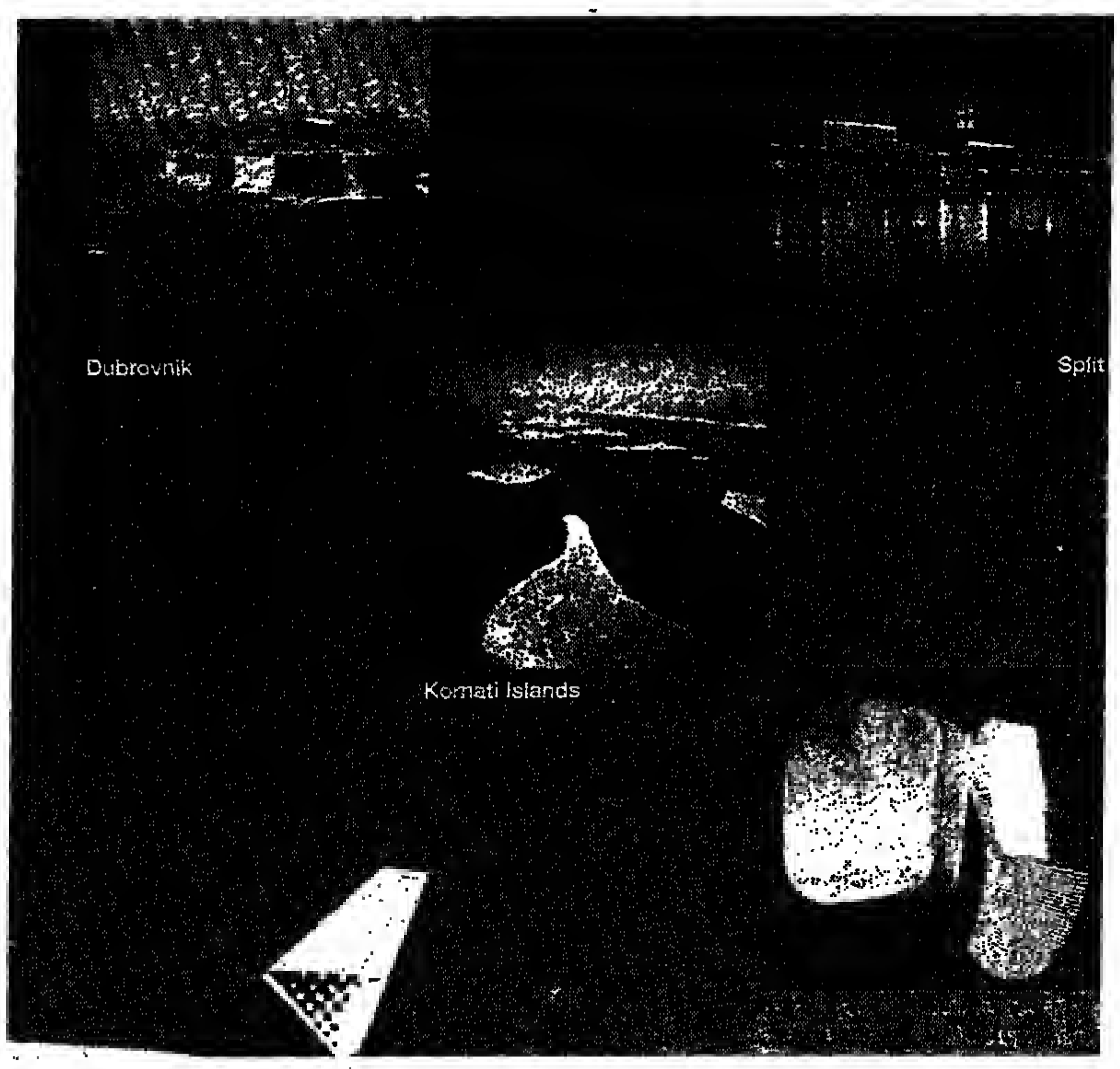
This is still well below the HDZ, bowever, where even in hostile Zagreb the ruling party's share of the vote was 34 per cent in the April elections, compared with 36 per cent in 1995 when the opposition united sufficiently to put forward non-HDZ candidates for city mayor. They were all rejected by Mr Tudjman in a display of authoritarianism which, the opposition argues, revealed his true political colours.

Deapite this damaging stand-off, which left the city without a mayor for over a year, the HDZ won 24 of the 50 seats in the city council in tbe April municipal elections. Earlier this month, it gained the two extra seats it needs to govern the city by wooing defectors from a divided opposition.

Zagreb, a city whose population is now thought to exceed 1¼m, contains a quarter of the country's population and dominates the economy. It is a prize Mr Tudjman refuses to give up, although tt is here in the capital tbat resentment is most loudly expressed against an organisation still widely seen as arrogant and corrupt and dominated by hard men from Herzegovina, the Croat nationalist part of western Bosnia.

Nationwide, however, the HDZ remains by far the biggest political force, despite a slow decline in overall support from 48 per cent in 1993 to 45 per cent in the 1995 general elections and 43 per cent in April.

So long as Mr Tudjman remains at the helm as a Gaullist-style president who towers over the government, the HDZ, with a majority in parliament and a fractured opposition in the country at large, can expect to remain in power until the next general elections in 1999. Once he leaves the scene, however, a fundamental re-organisation of Croatian politics is inevitable.



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THE ECONOMY • by Anthony Robinson

First fruits of peace seen

Rises of 20% in tourism receipts and 24% in construction output have given a much-needed kickstart to finances

The seeds of Croatia's economic recovery were sown in 1993 with the start of a Polish-style, macro-economic stabilisation programme. It was only last year, when peace came, that the first fruits appeared. Foreign tourists – the main source of hard currency – returned in large numbers and reconstruction of war damage began in earnest.

A 20 per cent rise in tourist receipts and a 24 per cent advance in construction output were the kick-start that the economy needed. But the lower interest rates which resulted from returning faith in a handful of restructured banks and three years of low inflation ensured that funds were available to accommodate higher growth and stimulate higher investment.

There is considerable debate over how fast the economy rebounded last year from the traumatic years of war, partial occupation and the change to a market economy.

Mr Marko Skreb, governor of National Bank, the central bank, puts the figure at 7 per cent. Mr Zarko Miljenovic, chief economist at Zagrebačks Banka, says it was only 3.7 per cent. He believes thet this is understated, but says negative growth continued into the first half of last year and as a professional economist be has to make his calculation purely on official statistics.

The problem is that Croatia, for all its new-found financial sophistication, has still not got round to preparing an orthodox set of national accounts. The lack is being rectified. But in the meantime there is an element of guesswork and thumh-sucking in the presentation of economic trends.

The prohlem is exacerbated by the high tax burden and heavy social charges on legitimate husinesses. This has encouraged the development of a substantial "parallel economy", partly fuelled by undeclared emigrant remittances and a substantial reflux of private capital from abroad. The government hopes that impending tax reform, especially the introdnction of a value added tax next year, after a year'a delay, will broaden the tax base and make evasion more difficult.

In the meantima, Mr Borislav Skegro, the deputy prime minister in overall charge of economic matters, is convinced that the official figures significantly understate the "bounce-back" from war-depressed 1995.

He believes that the economy grew between 10 per cent and 14 per cent last year and is looking for "at least another 7 per cent growth" this year. "The recovery of Western Slavonia and the Krajina area made the country 35 per cent higger. The re-opening of oil and gas pipelines and road and rail communications between Zagreh and the Dalmatian coast had a hig impact on economic activity, especially on tourism and construction," he says.

He cites a 15.8 per cent rise in tax revennes, a 25 per cent rise in electricity prodnction, higher output in the shipyards and other industries, rising foreign investment, returning foreign tourism, a strong growth in hank lending, a spurt of new housing and reconstruction work and a big rise in capital goods imports to support his case.

Unemployment, whicb he estimates was 30 per cent in 1990 if socialist over-manning is included, is now half that level, he says, while real incomes are rising – albeit from the lows they plunged to in 1992 whicb were 40 per cent of pre-war levels.

The "feel good" factor has not yet filtered down to the thousands of refugees camping in the coastal hotels, or to workers facing a hard struggle to make ends meet on wages which are relatively high by east European standards hut low in comparison with the west European prices of goods in the shops.

The remaining refugees are due to go home to Eastern Slavonia and elsewhere this year and will be helped to rebuild their homes hy the Agency for Development and Reconstruction. Meanwhile, higher foreign and domestic investment, privatisation and the general restructuring of industry and banking is helping to raise productivity and redoce unit costs. This allowa for non-inflationary increases in real incomes, which were up an average 13.6 per cent last year, compared with inflation of about 3.5 per cent.

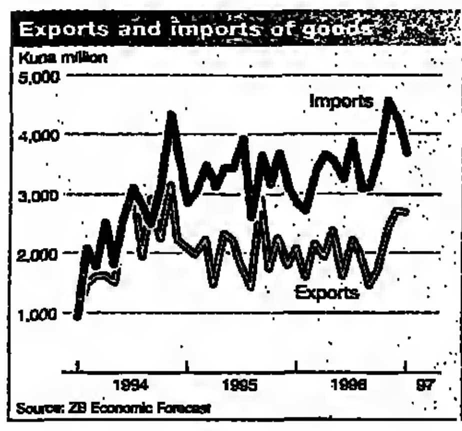
Mr Franjo Lukovic, the president of Zagrebačks Banka, says that ona of the main prohlems facing the economy is the shortage of competent managers able to carry through the introduction of new technology and methods.

Foreign analysts worry that the big quality gap between a handful of internationally recognised companies such as Pliva, the pharmaceotical company, and Zagrehačks Banka, with their international connections and London listings, and the second rank industrial companies and banks now being wooed by a flood of foreign investment bankers, is not fully understood. There is a danger of hubris and arrogance.

In the ultimate analysis Croatia remains a small, relatively high cost economy with a lot of catching up to do. But there is no mistaking the new-found attraction of Croatia for foreign investors. The lures include a combination of low inflation and fiscal discipline and the opportunities opened up by an increasingly credible policy of radical restructuring of key industrial and financial sectors.

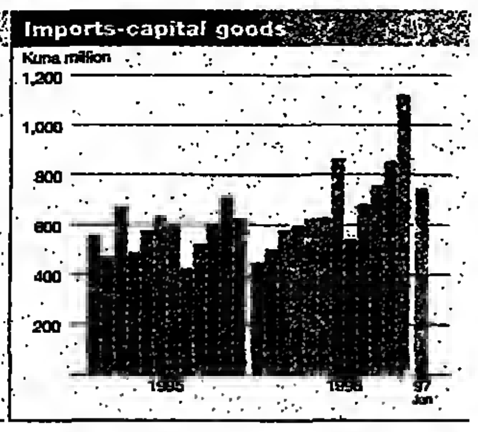
What adds to credibility is the government's recent conversion to the merits of privatisation and partial foreign ownership of flagship companies as well as public utilities and the tourism sector.

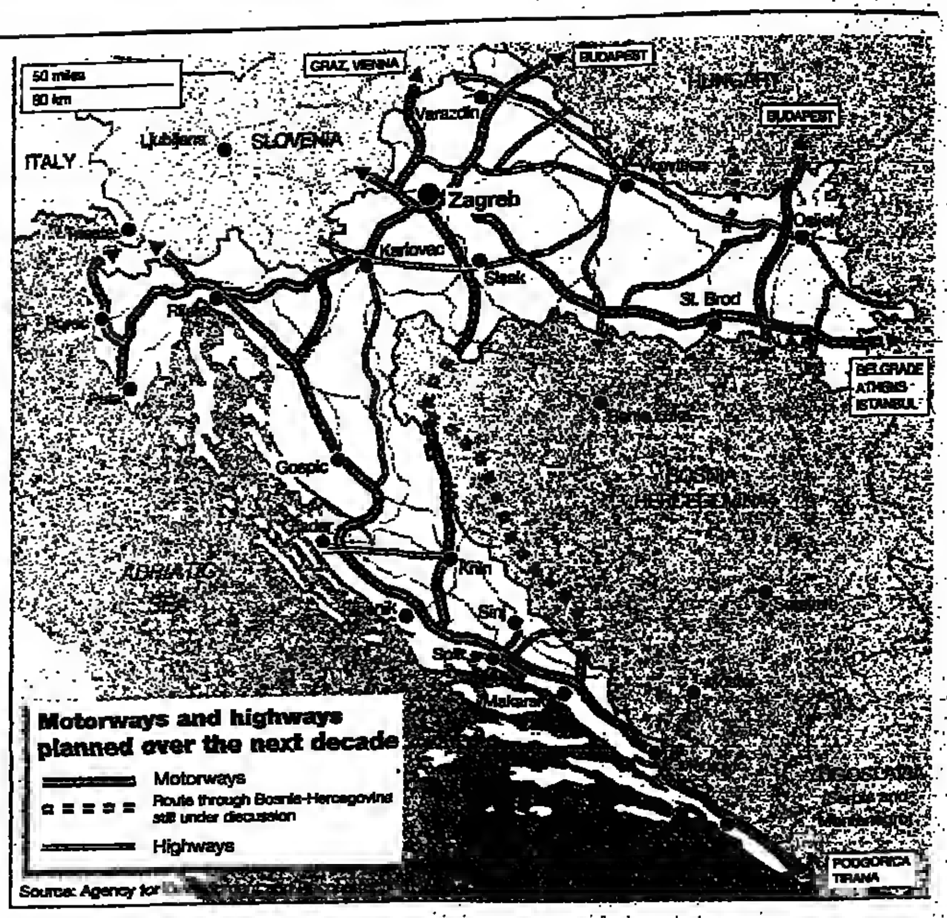
Exports and imports of goods



Source: ZB Economic Forecast

Imports-capital goods





Motorways and highways planned over the next decade

Motorways

Route through Bosnia-Hercegovina still under discussion

Highways

Source: Agency for

PROFILE Three wise men

Tudjman's troika firmly in control

The fastest and most successful transitions to market-based economies throughout the former communist world have depended crucially upon the quality of a few technocrats in key positions, co-operation between them – and strong political support.

This general principle is particularly apposite in Croatia, where a troika of young men, strongly backed by President Franjo Tudjman, have implemented one of the classic stabilisation success stories in the region.

The three are Mr Borislav Skegro, a former economic adviser to the president who is now the deputy prime minister with overall responsibility for economic reform; Mr Marko Skreb, president of the National Bank of Croatia; and Mr Bozo Prka, the finance minister.

These three, all in their early forties, enjoy a close working relationship and have transformed the prospects of what in 1993 was a war-torn and partially-occupied country suffering from hyper-inflation and a catastrophic fall in living standards.

Much remains to be done in bank and enterprise restructuring and raising the overall quality of management. But the list of macro-economic achievement is already a long one.

It includes the successful introduction of a stable national currency, the kuna, in May 1994; three years of Maastricht-compatible budget deficit and inflation levels; investment grade ratings from international rating agencies; a London listing for Pliva and Zagrebačka Banka; a successful $300m debut for Croatia's first sovereign euro-loan followed by a spate of corporate borrowings; on-going programmes with the IMF, World Bank and EBRD; and rising foreign direct and portfolio investment.

Given the unpromising starting point, Croatia's macro-economic performance ranks alongside the pioneering stabilisation programme introduced by Poland's Leszek Balcerowicz in 1990 and Hungary's 1995-6 recoil and recovery from an impending Mexican-style domestic and foreign debt crisis.

The Hungarian case is particularly relevant. Mr Gyorgy Suranyi, the governor of Hungary's central bank, in tandem with the finance minister, Mr Lajos Bokros, was able to switch resources from consumption to exports and debt repayment and accelerate privatisation. They were able to do this because of the unflinching support of the prime minister, Mr Gyula Horn, even though Mr Horn had been elected with a mandate to ease, not amplify, the pain of structural reforms.

The Croatian troika received similar support from President Tudjman, who is a military historian, not an economist. His political support for a stable currency and a solid, non-inflationary base for its future economic development is likely to have as profound an effect on the long-term evolution of Croatia into a "normal" central European country as the creation of an army capable of regaining and defending Croatian territory.

That support has also been forthcoming in the struggle between the ultra-nationalist wing of the ruling HDZ, which resisted privatisation of Croatia's "crown jewels" and the technocratic wing. The latter argued successfully that Croatia's long-term future was best served by the privatisation of leading Croatian companies and utilities to bring in both foreign capital and technology and ease integration into global markets.

"People abroad still think we are just a bunch of nationalists, and it is true we all had to stick together when we were building the new state and fighting a war at the same time," says Mr Prka, the finance minister.

"But every year we take two or three steps which demonstrate our real desire to co-operate internationally and to develop our democracy as well as our economy," he says.

Anthony Robinson

At the heart of success: Bozo Prka, finance minister; Borislav Skegro, deputy prime minister; and Marko Skreb, president of National Bank

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EASTERN SLAVONIA AND THE REFUGEES • by Guy Dinmore

The people 'nobody wants'

Reconciliation is seen by some as just a dream of the western mediators

Mrs Ljuba Cubrilo contemplates life as an eternal refugee with two children to feed on bread, jam and lard. "We are like Kurds," she says. "Nobody wants us."

She survives on Red Cross rations in the war-damaged house of a Croatian family she has never met. She is one of about 50,000 Serbs who were driven eastwards by Croatian offensives in the summer of 1995, and took refuge in the still Serb-occupied pasturelands of Croatia's Eastern Slavonia on the borders with Serbia and Hungary.

But that Serb dominance is coming to an end. Like many others she is getting ready to leave, just as some 80,000 Croats who were expelled westwards, deeper into Croatia, by the Serb-dominated Yugoslav People's Army in late 1991, are preparing to return to Eastern Slavonia to reclaim their homes.

Once one of the richest areas of former Yugoslavia, thanks to thick alluvial soil and oilfields, Eastern Slavonia is still riddled with up to 1m mines, while towns and villages lie devastated by the Yugoslav army's heavy bombardment in 1991. Mass graves are a reminder of the atrocities committed by both sides when neighbour fought neighbour.

The region and its 120,000 inhabitants have been under temporary UN administration since January 1996, but will return to full control of the Croatian government at a date to be set by the UN Security Council in June. The current UN mandate expires on July 15, but a mission will remain for a further six months, during which time the 5,500 UN peacekeepers will withdraw, leaving behind just international observers.

Croatia's president, Mr Franjo Tudjman, has pledged that the original 70,000 or so Serb inhabitants of Eastern Slavonia can remain if they become Croatian citizens, while refugees such as Mrs Cubrilo may return to their homes in nearby Western Slavonia and Krajina.

The international community has made clear to the nationalist government in Zagreb that Croatia's integration with the European Union and Nato depends in part on a peaceful return of refugees and establishment of a tolerant, multi-ethnic state.

"This is the year of coming back and reconciliation of all Croatian citizens to live together in peace, democracy and wealth," Mr Tudjman said in April on the eve of local elections throughout Croatia, including Eastern Slavonia. "These elections represent the start of Serbs peacefully becoming equal citizens of Croatia. I call on all Croatian citizens to heal the wounds of the past."

But for some refugees, who have already met with a concerted campaign of intimidation and attacks on attempting to return to Krajina and Western Slavonia, reconciliation is just a dream of western mediators and empty words by Croatian leaders.

"I'll live in a tent or in a park if I have to in Serbia. We've lost everything," says Mrs Cubrilo. "No reconciliation is ever possible. They should solve it all for ever so we don't have to share the same bread. We lived in Tito's Croatia. But we can't live in Tudjman's Croatia."

Mr Ivan Cicak, president of the Helsinki Committee for Human Rights in Croatia, also doubts Mr Tudjman's commitment to his public pledges. "In most cities and towns throughout the reclaimed territory, there is a strong campaign against the return of private property to their rightful owners, and pressure and threats are being used to scare and drive away the remaining Serb population," he said in a letter to Mr Tudjman on April 11.

Mr Jacques Klein, the major-general in charge of the UN Transitional Administration for Eastern Slavonia (UNTAES), recently visited Krajina, and held talks with Croatian officials in Washington to drive home the message that the return of refugees must be a two-way process.

Returning Eastern Slavonia to full Croatian sovereignty has already begun. Croatia's kuna became the official currency in the region in mid-May, replacing the dinar. Post offices now sell Croatian stamps, and courts will operate under Croatian law on June 1. Contracts and pensions for Serb workers in state utilities have been negotiated by UNTAES.

In late May, Croatian officials are due to travel to the ruined baroque town of Vukovar on the banks of the Danube to hold talks with Serbs on establishing the municipal council. The ruling Croatian Democratic Union (HDZ) and the Serb alliance both won 12 seats, while a hardline nationalist Croat party took two. Despite the lingering bitterness and mistrust local observers do not rule out co-operation between the HDZ and the Serbs to exclude the extremists.

Under Mr Klein's no-nonsense leadership UNTAES has scored significant successes in securing guarantees for the Serbs who choose to remain. Two deputy governors in the region and four assistant ministers in Zagreb will be Serbs. The Croats have also guaranteed that almost half the region's police force will be made up of Serbs and other ethnic minorities. The April 13 elections began in administrative chaos, but at the end of two days a high turnout had been assured and Mr Klein declared the polls free and fair. Serbs won majorities in 11 of 28 local councils.

Zagreb and Belgrade have, however, so far failed to reach agreement on two crucial issues – dual nationality for the Serbs of Eastern Slavonia, and making the area and a 15-km swath of Serbia's borderlands a demilitarised zone.

No one knows how many Serbs will choose to stay. They feel betrayed by Serbia's president, Mr Slobodan Milosevic, and realise their fate is tied up with the state of future relations between Serbia and Croatia and the will of both sides to rein in nationalist extremists. Serb sources say the two presidents have struck a secret deal to allow Serbs to remain in Eastern Slavonia, while only a few of the 200,000 who fled Krajina and western Slavonia will be allowed back by Mr Tudjman's government.

"We are small rusty cogs in a big rusty machine," said a local Serb shopkeeper. "Our future is out of our hands."

PROFILE General Jacques Klein

Steely diplomat wins support of presidents

UN administrator sees 'so much hate and hostility' on both sides

Gen Jacques Klein: 'Each side has to leash its own dogs' Photo: Popperfoto

With his thick cigar and air force bomber jacket, General Jacques Klein may resemble a modern-day Patton but he is also a steely diplomat with a passionate commitment to help recreate a peaceful, multi-ethnic society in Eastern Slavonia.

Gen Klein, a major-general in the US Air Force Reserve who spent much of his career in the state department, combines the toughness of a military man with the willingness to spend countless hours negotiating the details of how to reintegrate about 80,000 Serbs, Hungarians, Germans and other minorities into a newly-independent Croatia.

Gen Klein recognises in the fertile but war-torn farmlands of Eastern Slavonia the suffering that his own family went through in Alsace in the second world war.

Just as that fiercely contested region is now a symbol of Franco-German rapprochement, his task as the UN transitional administrator since January 1996 has been to bring about the potential for reconciliation in Eastern Slavonia, where tens of thousands of Croatian families will soon return to the homes they fled under bombardment by the Serbs in 1991.

"Each side has to leash its own dogs – extremists on both sides. But there is still so much hate and hostility," he says. "The war ended just 18 months ago. It's like asking for Franco-German rapprochement in 1946. It's not easy."

Backed by a powerfully equipped multinational force of 5,500 Gen Klein started by evicting a convoy of armour and heavy weapons back into neighbouring Serbia and expelling Serb paramilitaries from Croatia's oilfields.

A buy-back programme succeeded in taking large quantities of arms and ammunition out of circulation, although the UN admits many Serbs still have weapons hidden at home.

Infrastructure has been reintegrated into Croatia and Serbs have guarantees of jobs and pensions in Croatian state utilities.

More important, however, are the assurances of political and cultural rights for Serbs that Gen Klein negotiated with Mr Franjo Tudjman, Croatia's president.

"We've given people a package they need for their dignity and future. The goal is to have people feeling part of the system, inside looking out, not outside looking in," he says.

"We're almost like a law firm. The corporation has fallen apart, leaving a whole range of assets and human interests that have to be redefined."

Gen Klein recognises that unlike the ill-fated UNPROFOR mission in Bosnia or the uncertainty surrounding the Italian-led multinational force in Albania, his task was made easier by the framework of a solid agreement between President Tudjman and Serbian President Slobodan Milosevic to return eastern Slavonia to Croatian rule.

"This mission could never succeed without the support of the two presidents. Milosevic doesn't really want more Serbs coming across the river. They are an economic albatross and an embarrassing reminder of failed policies," Gen Klein says.

Reconciliation does not mean covering up the past, however. The general's forces helped the war crimes tribunal based in the Hague exhume a mass grave in Ovcara, where Serbs had dumped the bodies of about 200 Croats taken from Vukovar hospital and executed in November 1991. But with characteristic sensitivity Gen Klein also organised a memorial service conducted by a Roman Catholic bishop and attended by relatives of the victims at the gravesite.

Gen Klein's toughest task was to organise local elections in eastern Slavonia on April 13 and persuade reluctant and hardline Serb leaders to take part.

The polls got off to a disastrous start when the Croatian authorities failed to deliver enough ballot papers and correct voting lists. Gen Klein was immediately on the phone to Zagreb and the regional government in Osijek to secure an agreement to extend voting into a second day. He then toured polling stations in the area, urging crowds of frustrated Serbs to be patient. "Everyone who wants to vote will get the chance to vote," he said repeatedly.

In the end the turnout was high and Gen Klein declared that the elections, closely monitored by international observers, had passed muster.

He hopes to hand over executive authority to the Croatian government on July 15 and then start to pull out his troops by the January 15 1998 deadline of his UN mission.

The burly general is fond of pointing out that the farmers are planting their fields and children are going to school. Only an estimated 10 per cent of the Serbs in Eastern Slavonia have left so far.

But as one local journalist pointed out, the true test of the UN's achievements will come this summer – at the end of the school year, after the harvest and after the first few months of Croatian rule.

Guy Dinmore

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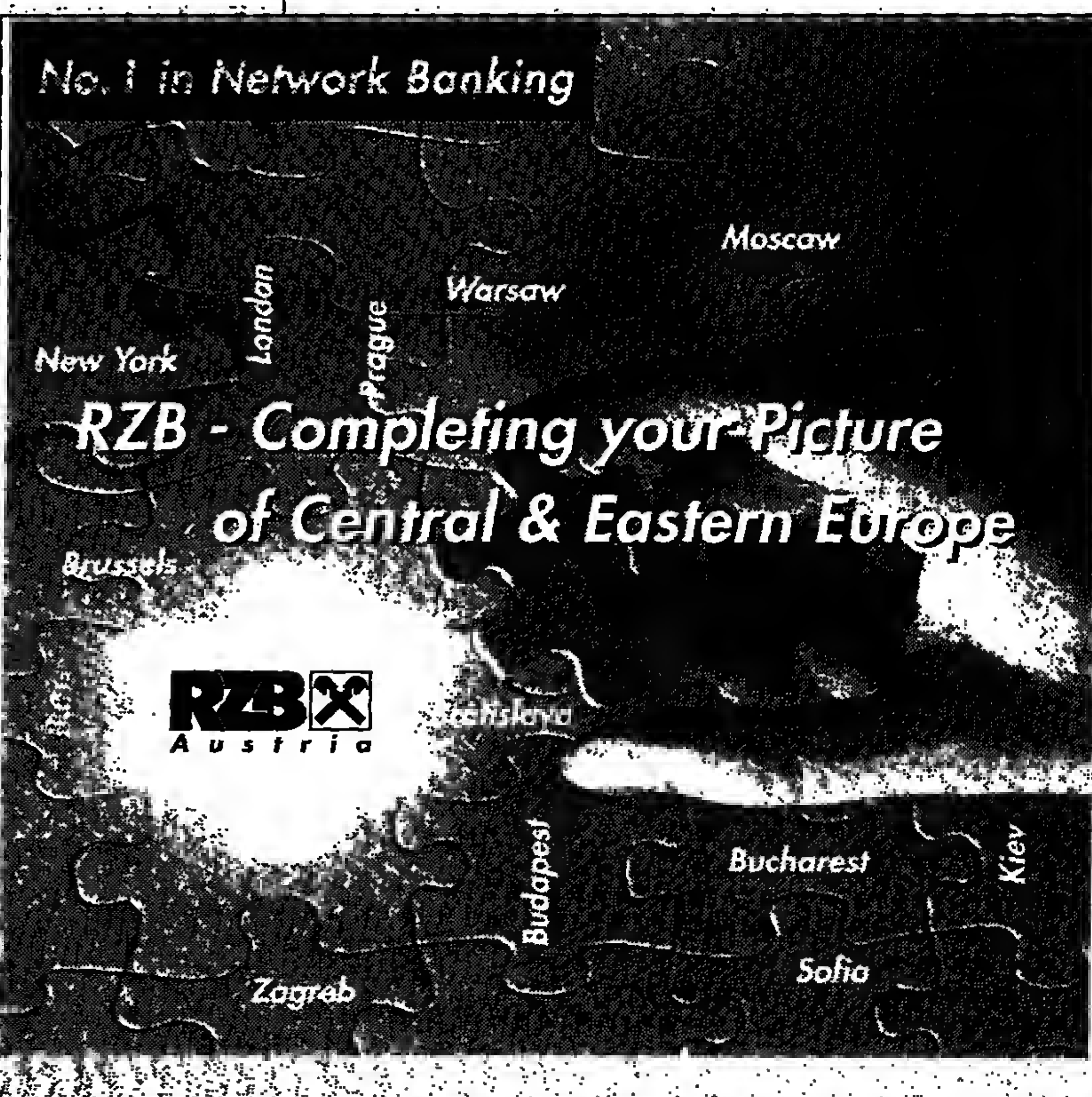

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On this and the following page FT writers looks at core Croatian companies and banks in the throes of restucturing

BANKING • by Anthony Robinson

A whiff of fresh air

Entry of foreign banks is a testament to the credibility of the kuna

The legacy of Croatia's Titoist past and its idiosyncratic "socialist self-management system" includes a plethora of banks. There are 63, of which the main ones used to be owned by their main debtors and clients.

But two banks alone – Zagrebačks Banka (ZB) and Privredna Banka Zagreb (PBZ) – account for about 80 per cent of the country's banking business. The next seven banks in order of size and importance are all regional banks. The rest are mainly small, under-capitalised private banks and – in a recent development – six new foreign banks.

The entry of foreign banks – the latest is Bank Austria, in Zagreb – is a testament to the growing credibility of the Croatian kuna and the growing trade and business links with Austria and other neighbours.

Emigrant remittances, worth more than $500m a year, a large diaspora and millions of *gastarbeiter* in Germany and elsewhere have left a tradition of keeping savings either in foreign accounts or in foreign banks in neighbouring countries.

Working abroad and dealing with millions of foreign tourists have given Croatians a taste for western banking standards and hard currency accounts. The desire to keep savings in foreign banks was enhanced by the hyper-inflationary tendency of the former Yugoslav dinar and the political risk of holding even hard currency accounts in the country.

These risks were dramatically underlined when the Belgrade-based Federal Yugoslav central bank hijacked hard currency accounts in 1991. This led to the freezing of hard currency accounts throughout former Yugoslavia and dealt a terrible blow to the initial credibility of all the commercial banks which emerged in the newly independent republics.

The Croatian government decided to deal with the problem by freezing these blocked accounts, which totalled $3.5bn in 1991, as part of the national debt. It issued two series of 10-year, interest bearing bonds which are traded on the Zagreb stock exchange. It also allowed funds in frozen accounts to be partly used to buy flats or privatised assets. Only $1.4bn remains blocked and these funds are expected to be unfrozen in the next few months.

Meanwhile, three years of exchange rate stability and low inflation, combined with positive real interest rates on kuna and new foreign currency deposits, have been accompanied by big efforts to improve the efficiency and transparency of the best Croatian banks. A state-backed restructuring programme is tackling the bad debt and other problems of the former socialist banks.

Restructuring started in 1994, when tha National Bank of Croatia selected Privredna Banka and three regional banks – Rijeka Banka, Splitska Banka and Slavonska Banka – to be put in the hands of a new State Agency for Deposit Insurance and Bank Rehabilitation.

The combination of macro-economic stability and restructuring has improved the attractiveness of Croatian banks and forced foreign banks to seek business inside the country rather than "offshore".

Croatia's increasingly self-confident monetary and banking authorities believe that the entry of foreign banks will further stimulate competition. Only those Croatian banks able to make good use of their natural advantages and client networks and improve the quality and range of their services will survive.

Just how many survive the Darwinian struggle ahead is problematical. But Zagrebačks Banka, headed by Mr Franjo Luković, is virtually guaranteed to be one of them. Ten per cent of its equity was sold to foreign investors through an issue of global depository receipts (GDRs) last year and the shares are quoted in London and Zagreb. The issue proved so successful that foreign portfolio investors have since picked up another 20 per cent on the Zagreb Stock Exchange, helping to boost the bank's share price six-fold last year.

A big attraction to investors is the bank's 11 per cent stake in the Pliva pharmaceutical company, whose London and Zagreb qnoted shares also sextupled in value last year. ZB is also Pliva's main banker and Mr Lukovič enjoys a close working relationship with Mr Zeljko ˇCović, the president of Pliva.

Close links between ZB and Pliva have created a powerful, majority Croatian-owned but internationally open financial and high-tech industrial dynamo at the heart of the Croatian economy.

Until now tha economy has paid a high price for its inefficient banks, through wide spreads between borrowing and lending rates which resulted in prohibitively high interest rates generally. Those spreads are narrowing fast, encouraging investment hut further threatening the survival of the smaller banks.

"Domestic lending rates are now only 1 per cent to 2 per cent higher than the cost of foreign loans compared with 5 per cent to 7 per cent last year. Spreads have also narrowed sharply, although our lending rates at between 9 per cent to 14 per cent depending on maturity and the client are half last year's rates," Mr Luković says.

As for consolidation, Mr Marko Skreb, the governor of the National Bank of Croatia, says this is inevitable. But with the current crisis in the Czech banking system and the virtual collapse of the banking system in Albania and Bulgaria in mind, he underlines that everything is in place to prevent bank closures or mergers creating systemic risk to a banking industry which is being profoundly restructured and modernised.

Star performers: Franjo Luković (Zagrebačks Banka) and, right, Zeljko ˇCović (Pliva) Photo: Anthony Robinson

PROFILE Privredna Banka Zagreb

Propped up to go private

For decades, Privredna Banka Zagreb (PBZ) was the biggest and most powerful bank in Croatia. But it proved unable to match the reforming zeal of Zagrebačks Banka, which started to restructure itself into a western-style commercial bank in 1992.

PBZ owed its prominence under the old regime to its role as investment banker and foreign fund raiser on behalf of its former shareholder/clients such as INA the former Yugoslav oil company, and Croatia's shipyards, engineering companies, tourist facilities and other state/self managing entities.

The collapse of the old system left the bank saddled with a terrible legacy of bad debts, inclnding those remaining from the collapse of INA's joint venture with Dow Chemical in the early 1980s. Its bad debts multiplied during the war, when it continned to credit enterprises in the war zones. On the asset side, however, no other bank had such a close relationship with the ruling party – initially the Communist party and then the HDZ – or with so mnch of the Croatian economy. No other bank boasted so many retail branches and client accounts. Essentially, it was the classic case of a bank too big to be allowed to fail.

The decision to include PBZ in the restructuring process sent a powerful signal to domestic and foreign investors that the government was serious about economic reform generally. For restructuring PBZ meant restructuring the debts of the state-owned companies which were both its clients and its owners.

Strengthening the commercial banks is supported by the European Bank for Reconstruction and Development, which has extended credit lines to ZB, to Varaždinska Banka and several other banks and taken a 20 per cent equity stake in Bank Austria. Restructuring is also supported financially and technically by the World Bank, which earlier this month approved a $97m financial adjustment loan (Fesal).

The main instrument of restructuring, however, is the new Rehabilitation Agency, whose first task was to pnt new management teams into the four banks elected for restructuring.

"The priority task of the new managers was to stabilise the liquidity situation and staunch the losses from bad loans," says Mr Ivan Tomljenovic, a senior agency official. "Once the haemorrhaging was staunched the bad loans were transfered to the agency for collection. The agency then covered the losses and re-capitalised the banks," All the restructured banks are now cutting costs, and seeking strategic investors.

In PBZ's case the agency issued bonds worth K1,463m to cover losses and recapitalise up to the Bank for International Settlements 8 per cent capital adequacy level. The agency now owns 83 per cent of a bank whose destiny – shared with the other three banks – will be privatisation.

Anthony Robinson

PROFILE Varazdinska Banka

Safe haven in the hills

Tucked away near the border with Hungary, amid fertile farmland and wooded hills, the baroque city of Varazdin suffered fewer of the devastating consequences of war and hyper-inflation in the early 1990s than other parts of Croatia.

Resourceful managers at Varazdinska Bank, a regional concern based in the city, were quick to identify a business opportunity in the conflict in Eastern Slavonia, where fighting between Croats on the one side and Serbs backed by the Yugoslav army on the other triggered a massive flight of refugees.

Because Varazdin was seen as a safe haven, the bank succeeded in attracting funds that panic-stricken depositors would otherwise have transferred to banks in Austria, says Mr Bozdar Grobotek, director of Varazdinska's international division.

"We went after customers who were taking funds out of what had become a war zone, and it paid off. Instead of just surviving in the difficult years, the bank managed to increase its deposit base," Mr Grobotek says.

Varazdinska's other advantage over competitors among medium-sized Croatian banks is the relatively small percentage of non-performing assets on its books.

Because the regional economy is based on trade and export-oriented light manufacturing, the bank's customers included few of the large loss-making companies whose accumulated debts under socialism still plague Croatia's banking sector.

"We had a conservative credit risk policy in the 1980s," says Mr Grobotek. "We also learned skills that banks in other regions were not able to because Varazdinska's customers were exporting to western Europe rather than the Soviet Union and Comecon countries."

Last year, the European Bank for Reconstruction and Development (EBRD) took a 10 per cent stake in Varazdinska, its first equity participation in a Croatian bank.

The EBRD is now financing a restructuring being carried out with the help of Arthur Andersen, the international consultants.

The reorganisation will mark an important stage in Varazdinska's plan to follow the example of Zagrebačks Bank, Croatia's biggest bank, and gain a listing on the London stock exchange through a global depositary receipt issue, perhaps early in 1998.

Varazdinska was officially listed last month on the small Zagreb bourse after completing a one-for-160 share split intended to boost liquidity and make its shares more marketable.

"At K42,000 per share on the unofficial over-the counter market, our shares had become inaccessible to many investors," Mr Grobotek says.

The bank raised after-tax profits last year by 75 per cent to K28m, largely through increased fees and commissions. Deposits grew by 35 per cent to K1.09bn while lending was up 90 per cent to K830.9m.

Retail deposits are still the bank's main source of funds, while borrowers include about 300 corporate customers, mainly local food and timber processors and textile producers.

Varazdinska's ambitious business plan calls for doubling assets to K3bn over the next five years but to achieve this goal it will have to expand beyond its current operating radius of about 100km around Varazdin.

Mr Grobotek says the bank has started to gain customers from outside the region by offering longer-term loans and lower interest rates than its competitors. Loans for working capital are at 12 to 14 per cent, compared with more than 20 per cent for similar-sized banks in other regions.

New customers include "some very healthy corporate clients" from Rijeka and Split, the biggest Adriatic coastal cities, where Varazdinska plans to open new branches this year, he says.

With consolidation imminent in Croatia's over-crowded banking sector, in which more than 60 commercial banks serve a population of about 4.5m, Varazdinska is seeking a merger with a southern Croatian bank involved with tourism that would complement its own activities. One possible partner according to Zagreb bankers would be Dalmatinska Bank, a successful regional bank based in the popular Adriatic tourist resort of Zadar.

Kerin Hope

PROFILE Podravka

Seeking shelf space for exports

Almost every Croatian kitchen contains a packet of Vegeta, a seasoning invented in the 1950s to add flavour to a dull socialist diet and now increasingly popular in Hungary and the Czech Republic.

Vegeta is the flagship brand of Podravka, the biggest Croatian food processor. Its savoury aroma drifts up from the production line at the main plant in Koprivnica, near Zagreb, and into the offices of senior managers, who are restructuring the lossmaking holding group with the help of Arthur D. Little, the international management consultant.

Mr Zvonimir Majdancic, Podravka's chairman, says: "We have to focus on core businesses. Take Vegeta: it's our top-selling brand but we don't hava the production capacity to meet more than 30 per cent of demand outside Croatia."

Podravka will also try to boost exports in three product categories tbat could find shelf space in western European supermarkets. "The market research shows our dehydrated soups, infant foods and cake mixes are competitive on both quality and price," says Mr Majdancic.

Podravka has nntil recently followed the socialist-era practice of trying to improve production across the board without taking consumer preferences into account. Podravka makes about 600 prodocts at 29 plants around Croatia, from canned meats and vegetables to mineral water and horse-radish sauce.

It diversified into pharmaceuticals shortly before state funding for industrial expansion dried up in the early 1980s. Belupo, the group's pharmaceuticals company, produces veterinary drugs to supply the animal husbandry division and yeast for Podravka's brewing company, but could never have competed witb Pliva, the pharmaceuticals giant.

Pannonla Brewery, the group's beermaker, is close to completing a DM100m plant to produce Tuborg under licence.

Last year, Podravka posted losses of about K150m on sales of K2.2bn. Exports to central and eastern Europe accounted for about 30 per cent of sales, to a large extent replacing shrinking markcts in the rest of former Yugoslavia.

Mr Majdancic says Povdravka is projected to make profits of about K300m this year as a result of sbedding four lossmaking subsidiaries last year and reducing labour costs througb voluntary redundancies.

Podravka has about 20,000 shareholders who acquired 52 per cent of the group's equity as a result of privatisation. They include most of the 8,000-strong workforce – who were eacb allowed to buy shares with a face value of up to DM20,000 with payment being made in instalments – and Croatian war veterans, who received free shares.

Recent lively trading in Podravka shares on Zagreb's over-the-counter market reflects investors' hopes that the group can emulate Pliva's achievement of a London listing.

Kerin Hope

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PROFILE

Serious focus on old problem

Nothing illustrates the turnaround in foreign perceptions of (INA), the Croatian oil and gas company, more than the signature in Zagreb earlier this month of a $150m, five-year syndicated "bullet" loan to the company at only 87.5 basis points over Libor.

What made the loan possibla to the hitherto hopelessly indebted company was a government decision last year to tackle head-on the interlinked debt and managerial problems of Privredna Banka Zagreb, Croatia's second-largest bank, and INA, which used to be its largest bad debtor.

The politically-fraught decision, which culminated in the sacking of INA's previous senior management and the transfer of most of INA's debts from Privredna Banka to the government's Bank Rehabilitation Agency, cut the Gordian knot which had prevented both the root and branch restructuring of INA and tha re-building of the banking system. Now both tasks are seriously on the agenda.

INA grew like Topsy into a sprawling conglomerate under the Yugoslav self-management system with hotels and stakes in other tourist related activities. But its problems took on a different dimension in the late 1970s after a disastrous decision to expand downstream into petrochemicals in a joint venture with Dow Chemical. This broke down in 1981 when Dow pulled out, leaving INA with a loss of around $400m and a huge debt burden.

An over-engineered $700m ethylene cracker and related downstream petrochemical plants for polyethylene, polystyrene and PVC on Krk island, near Rijeka, came on-stream just as the petrochemical product market turned down.

The collapse in prices was the last straw in a badly-conceived joint venture relationship between Yugoslav-style "self-management" and a hard-nosed US corporation.

In 1990, at the start of the break-up of Yugoslavia, the Croatian government scrambled to take control of the bulk of INA's assets, which were largely based in Croatian territory. In 1992, the company began a re-structuring programme, stripping out ancillary activities such as tourism and concentrating on its core business of oil and gas exploration, refining and marketing.

But little was done while Croatia was at war, and both the company and Privredna Banka became channels for the financing and transport of arms and other war-related deals.

The incestuous links between INA, its bankers and powerful figures in the ruling HDZ kept progress fitful until last year when technocrats within the government, with the president's backing, shifted responsibility for $430m of loan principal and related interest liabilities from PBZ to the Rehabilitation Agency.

The bad loans related primarily to the group's petrochemical operations. It also appointed a new top management team for both the bank and for INA.

INA is now headed by Mr Davor Stern, the former economy minister. His brief is to make the company profitable and prepare it for privatisation and a listing on the London stock exchange by 1999.

"We have four or five years to bring the company up to world standards," says Mr Stern. "INA will be privatised after we have finished restructuring, to get the best price. Around 30 to 35 per cent of the company will be up for sale, but not the reserves of oil and gas. Meanwhile, we are looking for strategic partners, or rather tactical partners, to modernise several areas of the business."

The $150m loan arranged by Bankers Trust is designed to facilitate this process by allowing INA to restructure its remaining debt and retire expensive local bank loans. It will also be used to finance upgrading refinery operations and its network of petrol service stations which face growing foreign competition.

"If we can't compete with our two local refineries we should not be alive," Mr Stern adds.

INA'a spun-off assets now belong to the Bank Rehabilitation Agency, but some are still managed by INA, whose own assets now consist mainly of a refinery near Rijeka and another inland refinery at Sisak, together with small on and offshore oil and gas fields in Eastern Slavonia and tha Adriatic.

It also retains strategic stakes in the deep-sea oil terminal at Omišaljk, near Rijeka, and the Janaf pipeline. This was built to transport oil from the terminal to refineries in Hungary, former Czechoslovakia and throughout former Yugoslavia.

INA, which has slimmed its workforce from 27,000 to 17,000 over the past three years and plans to lose a further 6,000, remains Croatia's largest company and biggest employer. It currently produces 1.5m tonnes of crude oil and 2bn cubic metres of gas annually and imports a further 4m tonnes of oil and 1bn cu metres of gas. The company is currently exploring with Agip a promising new gasfield off Pula, and its Crosco subsidiary is drilling for oil in Angola, Syria and Albania and working on service contracts in Russia and Ukraine.

But it is INA's 33 per cent stake in the Janaf pipeline, whose other main shareholders are the Croatian pension and privatisation funds, which could be one of the company's most attractive assets.

The pipeline was designed as an alternative to Russia'a Druzhba pipeline, but INA is currently in talks with Russian oil companies. They want to be able to reverse the flow and make it possible to export Russian oil and rising quantities of Caspian and central Asian oil.

Deutsche Morgan Grenfell is currently studying a $120m project which involves a doubling of pipelines in parts. Oil would still flow from the terminal to refineries in Croatia and central Europe, but new pumping stations would also allow up to 15m tonnes of Russian oil annually to pass through the existing Druzhba pipeline and down Janaf to the northern Adriatic. A deal with the Russians is "unlikely before 1998, however," Mr Stern warns.

Anthony Robinson

PROFILE

In with the new: New Airbuses are to replace the fleet of ageing Boeings

Up-market tourism crucial to strategy

A crucial element in the strategy of Croatia Airlines' is to help develop the up-market sector of Croatia's tourism industry by direct flights from European cities to the coastal and island airports which serve Europe's most spectacular coastline.

Ivan Mišetić sees short-term travellers providing a new market

"We believe there is a big potential market for people who live in cities within a couple of hours' flying time from here, some of them with holiday homes or yachts, who are able and willing to fly down frequently for extended weekends or short breaks," says Mr Ivan Mišetić, the airline's recently-appointed president and chief executive officer.

After a tough year in 1995, when Croatia's air-space was closed because of fighting in western Slavonia followed by Operation Storm at the height of the summer tourist season, the company made a small profit last year. Then there was a 21.5 per cent rise in passenger traffic, which pushed revenues up to $114m from $95m in the previous year.

With Easter holiday traffic pointing to a 20 per cent rise in tourist numbers this year, the airline is gearing up for a further substantial rise in business. The summer timetable includes new flights between Zagreb and Milan and Madrid, and from Zagreb via Pula to Amsterdam, London and Zurich.

The surest sign of confidence was the recent decision to buy six new A319 Airbuses costing $270m and a further $60m for the 12 CFM-56 engines to power them. Delivery of the first A319 is scheduled for January next year, but the deal with Airbus Industrie includes the dry lease of an A320 model which will come into service in June in time for this year's peak summer season.

The decision to opt for Airbus came as a bitter blow to Boeing, which fought hard to persuade the airline to stick with the US company and upgrade the fleet of five Boeing 737-200 aircraft – some 14 years old – which it acquired from Lufthansa in 1992.

The Zagreb rumour mill has it that the decision to ditch Boeing was taken in a fit of pique after American TV revealed that President Franjo Tudjman was receiving medical treatment for cancer in the Walter Reed hospital. But senior airline officials strenuously deny the charge. "It was a serious decision taken after serious technical and financial investigation," they say.

The switch to Airbus will give the airline a new fleet of six aircraft supplemented by three ATR-42 turboprops by the turn of the century. It has the option to order a further 10 aircraft and the right to exchange them for larger A320 and A321 aircraft after the delivery of the first four A319s.

The switch to Airbus will not affect the current maintenance arrangements with Lufthansa. The German flag carrier runs a mixed fleet of Boeings and Airbuses and has been responsible for servicing the Croatian Airlines fleet since it sold them its ageing 737s five years ago.

Looking further ahead, the airline is planning to move beyond its current European dimension and take on international routes to serve those of the 5m strong Croatian diaspora now living in America, Australia and Africa. As a first step it recently signed a "pro-rate agreement" with Virgin Atlantic, under which passengers will fly from Zagreb to London with Croatia Airlines and connect there with Virgin for low cost flights to New York, Boston and Washington.

Anthony Robinson

PROFILE

Ericsson finds reservoir of talent

The home-grown talents of Croatia's software engineers, most of whom develop their computing skills no farther afield than Zagreb University, were a crucial component of Ericsson's decision in 1993 to acquire an equity stake in a local telecoms equipment supplier.

The Swedish telecoms manufacturer was the only bidder in an international tender to privatise Nikola Tesla, a Zagreb-based company named after a distinguished Croatian scientist. It still took 16 months, however, to work out a deal with the Croatian Privatisation Fund (CPF) because of political infighting and management objections to handing over control to a foreign company.

Croatian anxieties about a foreign takeover were eventually assuaged when Ericsson agreed to acquire a 49 per cent stake in the company, leaving 50 per cent in the hands of about 4,500 small shareholders, mainly company workers and pensioners. The remaining 1 per cent is held by the CPF. The deal carried a DM70m price tag, but Ericsson paid just DM20m in cash with the remainder to be covered by supplies of equipment over several years to HPT, the Croatian state telecoms operator.

"We now have 500 to 700 good engineers being integrated with the Ericsson system," says Mr Per Olof Sjostedt, president of what is now Ericsson Nikola Tesla. "There is a lot of qualified and useful competence here – in software engineering and testing. This is a global resource centre for the group."

Since assuming management control, Ericsson has reduced the 2,900 workforce by about 10 per cent, but the 50 engineers who gave up their jobs were immediately replaced by young locally-trained entrants. "They are extremely well qualified. We've already lost some people to Ericsson itself, and a few have gone to the US," Mr Sjostedt says.

The Tesla employees' expertise is partly tha result of a relationship with Ericsson which goes back more than 40 years to a licensing agreement with what was then a small workshop producing equipment for the Yugoslav telephone utility. Tesla started to manufacture the AXE-10 digital switching system, Ericsson's main product, under licence in the 1970s.

Digital switches made in Zagreb were supplied to Croatia and the rest of former Yugoslavia, as well as exported to the Soviet Union. Tesla is expected to remain a platform for exports of Ericsson switches to Russia and the former Soviet republics, where demand for digital equipment will rise as fixed-wire networks are expanded.

Exports accounted for 61 per cent of Tesla's DM250m turnover last year, Mr Sjostedt says. But Croatian officials claim this figure does not include the value of exports of Zagreb-designed software transmitted directly by satellite to Ericsson's other software centres in western Europe.

Tesla remains Ericsson's only acquisition in eastern Europe, although a green field project was set up in Hungary. The main difficulty at Tesla, which has yet to be overcome, has been "shifting from the historic legacy of a production-oriented culture and introducing the customer concept", says Mr Sjodstadt.

Ericsson faces strong competition in eastern Europe from Siemens of Germany and France's Alcatel group, as public telecoms operators invest to bring telephone density from under 20 per cent closer to the EU average of around 45 per cent.

An international market leader in mobile telephony, Ericsson has supplied an analogue cellular system to HPT, while Siemens has set up a GSM network. Both are fully-owned by the state operator. Ericsson has also supplied a GSM system for Sarajevo.

In Croatia more than 28 per cent of the population already have telephones and density is steadily rising. HPT has been installing digital lines, which give a substantial boost to revenues because calls can be time-charged, at the rate of 400,000 yearly. Tariffs have risen above the EU average, making HPT the most profitable Croatian company, according to government officials.

"HPT has an aggressive investment policy, unlike other state operators in this region," says Mr Sjostedt. "It has gooa about modernisation in an orderly way, upgrading the international network first, then enhancing the Zagreb city network and moving on to Split and Rijeka. It has been able to finance investment entirely out of profits."

HPT is slated for partial privatisation next year. As a local supplier hooked up directly to Ericsson's cutting edge technology, Tesla expects to benefit from the further boost to investment that privatisation is expected to bring.

Kerin Hope

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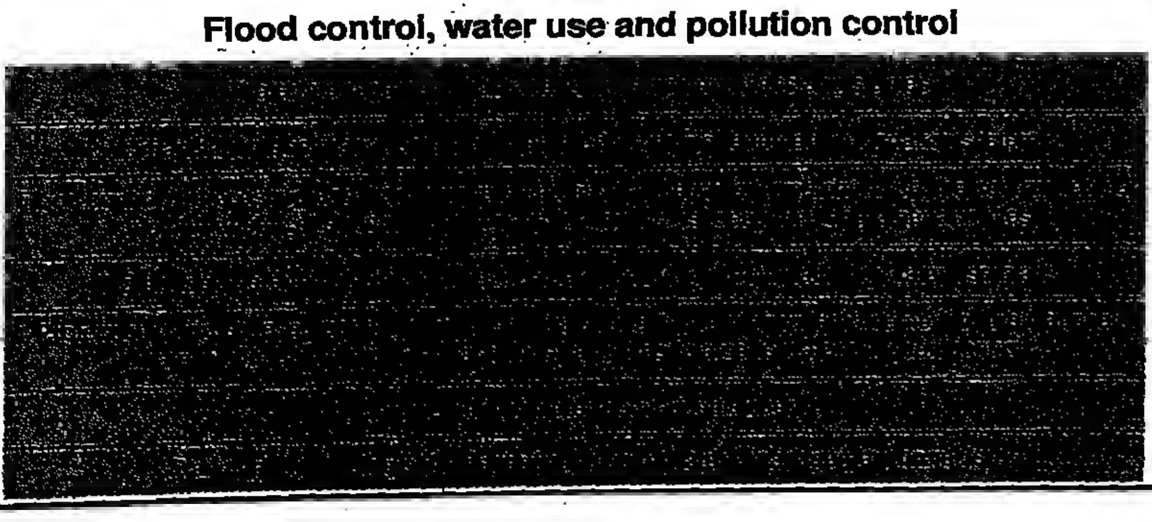

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FOREIGN INVESTMENT • by Guy Dinmore and Anthony Robinson

Attempting to discard a Balkan image

Cash is sought to create a thriving state from the wreckage of Yugoslavia

Croatia is determined to throw off its image as an appendage of the unstable Balkans and downplay its recent socialist past. It is wooing foreign investors to come and help create a prosperous, law-based central European state from the wreckage of multi-ethnic and multicultural Yugoslavia.

The government's rejection of anything "Balkan" was highlighted recently hy its refusal to have any dealings with an investment conference aimed at attracting investors to the region as a whole.

"Inviting Croatia to take part in a Balkans investment conference was like inviting Kuwait to participate in a Zionist fund," says Mr Damir Ostovic, the assistant minister for privatisation as he explains Zagreb's refusal to taka part in the London launch by the Hong Kong-based Regent Pacific Group of its new "Balkan Investment Fund".

Last year's IPOs by Pliva and Zagrebačks Banka put Croatia on the international investment agenda. Its status was given a further boost in the eyes of the foreign community last January when it gained its first international credit ratings from Standard & Poor's and IBCA, which rated its long-term foreign currency debt as BBB and short-term as A3. Local currency debt was given an A long-term rating.

Up to now, however, foreign direct investment has been relatively modest at about DM500m, with Germany, Austria, Switzerland and Sweden leading the charge. The Swedish contribution reflects one of the higgest strategic investments – Ericsson's purchase of 49 per cent of the Nikola Tesla electronics and telecommunication equipment company for DM70m.

Foreign investor interest is still rising, although some of the more astute investment bankers warn that tha quality of most companies being encouraged to make an initial public offering and seek a foreign listing is far below that of Pliva and Zagrebačks Banka, which are exceptionally well managed.

The European Bank for Reconstruction, with an investment portfolio of about $400m, is the singla biggest investor in the country, while the Croatian Investment Promotion Agency estimates that total foreign investment douhled to $280m last year. Several foreign investment banks are scurrying around trying to persuade second-tier companies such as the Rade Končar engineering group or the Podravka and Kraš food processing and confectionery companies, that they should emulate Pliva and ZB and go for an IPO and a foreign listing.

Future foreign interest is more likely to focus on a Hungarian-style privatisation of tha main utility companies, including HPT, which is preparing to divest itself of the postal division that accounts for the bulk of its current workforce. "There is great interest. Everyone is here," says Mr Borislav Skegro, the deputy prime minister in charge of the economy. Goldman Sachs, Merrill Lynch, Daiwa, Deutsche Morgan Grenfell, Creditanstalt and Rothschilds are all preparing to make presentations to the government, he adds.

The attractiveness of Croatian utilities has been enhanced by the government's decision in 1993 to abolish subsidies and allow the utilities to raise their tariffs to international levals while remaining state monopolies. This was part of its overall macro-stabilisation strategy. The result is that HPT, the most profitable of the state utilities, posted a 1995 profit of K436m in spite of heavy investment spending on new lines and equipment. Mr Skegro predicts that about one third of HPT could be floated in London for about $1bn. "Croatian telecoms is a sure bet. Every major investment bank in Europe has researched it," he says.

Janaf, the Adriatic oil pipeline company which is one-third owned by INA, the oil and gas company, and by CPF and the government pension body, is another company with considerable investment potential, especially if plans to transport 15m tonnes of Russian oil bear fruit. Deutsche Morgan Grenfell is preparing a study that could lead to an international offer. INA itself is also a longer-term candidate for privatisation alongside HPE, the state electricity monopoly.

Elsewhere, Nestlé has been wooing Kras, the chocolate and confectionery company, but without success as the confectionery-maker has decided to try to follow the trail blazed by Pliva and retain its independence by raising capital through an IPO and a foreign listing.

Rada Koncar, which suffered badly from the loss of former Yugoslav markets and heavy foreign competition, has laid off 4,000 people in the past five years and selected Deutsche Morgan Grenfell to raise DM105m through an IPO or placement with a strategic investor.

In a bid to attract new greenfield investment Croatia has established four "free zones" this year, with lower land rates, tax breaks and no customs duties. The South Korean conglomerate Samsung has taken the bait and is investing in a container terminal at Rijeka.

The attractiveness of the country's biggest port will be enhanced when a motorway now under construction offers easier and quicker communication both with the rest of Croatia and through Slovenia to tha Italian and central European motorway network.

PRIVATISATION • by Guy Dinmore and Anthony Robinson

Voucher scheme to benefit war victims

Internationally, the programme is seen as a success; at home, there are suspicions

Croatia's drive to privatise the state sector and lure foreign investment began about five years ago under the most inauspicious circumstances. The newly-independent country was at war, one-third of its territory was occupied by Serb rebels and it had inherited a legacy of more than four decades of socialist misrule.

In spite of the pressing diversions the government moved ahead with privatising small enterprises, shops and flats and in 1993 it agreed to the partial privatisation of the country's best-known company, the Pliva pharmaceutical gronp, and its second biggest and best-managed bank, Zagrebačks Banka.

The sala of stakes in the country's best companies dramatically raised Croatia's profile among international investors. Both companies are now quoted on the London stock exchange as well as dominating tba local Zagreb stock exchange.

Nearly two years after the end of hostilities and with its frontiers secured, tbe economy is 60 per cent in private hands and Croatia is entering the last stages of its privatisation process with a voucher scheme similar to that which the Czechs used to start their privatisation five years ago.

The start of the voucher scheme has been delayed, but is expected before the June 15 presidential elections. The main beneficiaries will be several bundred thousand war victims. They are waiting to be given assets worth a nominal DM3bn beld by the Croatian Privatisation Fund. Voucher privatisation will stimulate the creation of Croatia's first investment funds, which are expected to be formed this year. Foreign fund managers are laying the ground work.

Much more important for the future sbape of the Croatian economy will be tbe governmant's willingness to introduce over the next two years special legislation to sell substantial stakes in state-owned utilities, such as tha oil company INA, the electricity company HEP and the state telecoms company, HPT.

HPT, which has invested beavily in fibre optic cables and new lines over the past five years, is expected to be tbe most sought after by foreign investors. But privatisation could take some time as HPT is still structured as a traditional post and telecommunications monopoly. The postal services have to be hived off before privatisation of the lucrativa telecommunications sector can start. Sales to strategic investors or by an initial public offer (IPO) are due to be completed by the end of the century.

In spite of its widely acknowledged success abroad, however, many ordinary Croatians view the privatisation process as a system riddled with corruption that suddenly enriched a handful of unknown entrepreneurs with close ties to the ruling Croatian Democratic Union.

One businessman estimates that 10 per cent to 15 per cent of shares were corruptly acquired, sometimes through a system of sealed bids. "People came from the communist political arena, where corruption was very big, so it was to he expected. But we will see at the end who are the good managers," be says.

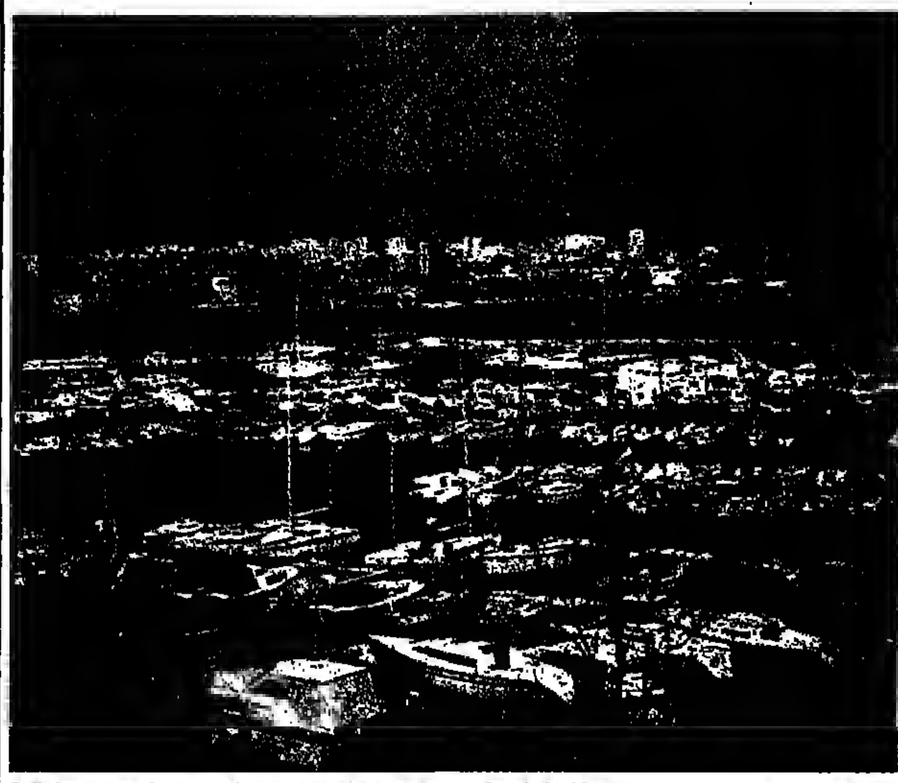
A scandal erupted last year when it was revealed that more than 9,000 people had exceeded the DM20,000 limit on the value of shares allotted to each citizen at a discount, depending on their length of service. Offenders inclnded the mayor of Zagreb, the architect of the privatisation law, the head of the tax office and at least two deputy ministers.

Mr Hrvoje Tadin, head of the husiness group Hita-Consulting, warns that there is little protection for small shareholders in Croatia, where some became big shareholders in "times of confusion and anarchy", not througb entrepreneurial skill, "but rather by relying on the political system or by finding loopholes in the legal system."

He adds: "Many are satisfied witb the monopolistic annuities they have managed to grab. Because of this attitnde big sharebolders of this kind will obstruct development. Meanwhile, people are being laid off and suppliers are being replaced, while high-ranking functions are centralised at the top. Little bas changed with privatisation, except for ownership."

Mr Franjo Lukovic, president of Zagrebačks Banka, whose sbares are traded on London's SEAQ, acknowledges the problems but says hetter times lie ahead. "Privatisation is politically inflnenced and struggled over in every country," he sald. "Our process started during a war when no foreign investment could be attracted and it was also a period of economic decline. It was not easy to sell at the best possible price and to satisfy all sectors of the population. Privatisatioo has been successful under the circumstances.

"But it's just a first stage. The capital market is only starting to develop. We will have dynamic changes over the next two years."



Split has potential, but effort in attracting foreign tourists is lacking

Picture: Anthony Robinson

Tourism sails to fresh markets

In the last pre-war year of 1990, more than 7m foreign tourists spent 45.8m nights and an estimated $2.2bn, mainly in Istria and along the island-studded Dalmatian coast which was virtually cut off from the rest of the world when Serb rebels blocked the rail and road routes, *writes Guy Dinmore.*

Last year, with the transit routes and airways open again, tourist "night stays" rose 67 per cent from the war-depressed 13m of 1995 and the government has just allocated $50m to help upgrade and repair hotels and resorts which served as refugee camps.

But the old days of mass tourism are numbered as Croatia heads up-market. Future investment will be concentrated in higher quality, better service and exploiting the potential for better marina and yachting facilities, as well as hotels and holiday homes. One priority is restoring Dubrovnik and its marina as the "pearl of the Adriatic". Some companies report that demand is picking up well, especially among German tourists.

Zadar is an ideal starting point to explore the Kornati, a string of the most rugged islands in the Mediterranean and Adriatic.

Memories of conflict bedevil Split, where Croatian refugees still occupy some hotels and little effort seems to have been made to entice foreign holidaymakers back.

THE STOCK MARKET • by Guy Dinmore

Slow progress made in Zagreb

Lure of London threatens to hold back the development of local trading

Zagreb's fledgling stock exchange is struggling to make its mark, even though turnover is growing rapidly. The privatisation process began over five years ago, but so far only three companies have fully listed, while 70 are traded on an unregulated market, only 15 of them actively.

"The majority of companies are not ready to come to the market and face full exposure and the danger of being taken over," says Mr Marinko Papuga, general manager of the Zagreb stock exchange, which was established in 1992.

Croatia's two most successful companies, Zagrebačks Banka and the pharmaceuticals concern Pliva, are quoted in London, and other aspiring companies appear more eager to raise capital there than at home. "We are a very young market and cannot raise a big amount of capital locally," says Mr Papuga. "That's why Pliva went to London. But if we lose all our business to London we won't have the chance to develop a local market."

Foreign investors, especially London-based fund managers have been the most important traders in Zagreb in recent months. "Foreign fund managers were crazy about buying Croatian stocks but had only two to go for," Mr Papuga said. Pliva's share price has risen nearly six times since its flotation a year ago, partly in response to the mismatch between supply and demand.

Of the $2.3bn reportedly invested by more than 30 international investment funds in central and eastern Europe by the end of January this year, Croatia's share was only 3 per cent, compared with 28 per cent in Poland and 23 per cent in Hungary. But the share is rising.

Daily turnover on the Zagreb exchange is averaging over DM2.5m this year, compared with a total in 1996 of DM366m. Market capitalisation at the end of March totalled $3.25bn.

Companies expected to become fully listed in the near future include Podravka (food processing), Kras (confectionery), Rade Koncar (engineering); and the Adriatic oil pipeline company Janaf. Next year may see the flotation of two leading utilities in oil and telecoms.

Two issues of domestic bonds denominated in D-Marks are also traded. The JDA series carries a 12 per cent coupon and the JDB series 8 per cent. "They are very popular with foreign investors," Mr Papuga notes, due to Croatia's relative political stability. At the end of 1996, the Croatian government also successfully raised K300m through a two-year eurobond issue in the local currency, with a coupon of 12.5 per cent.

Trading is executed through an on-line dealing system developed by the exchange when it had no foreign backers during the 1991-95 war, but is hampered by a lack of infrastructure. A securities and exchange commission is still being organised, but Mr Papuga describes it as "understaffed and under-budgeted".

Physical share certificates do not exist and there is no central repository. Share registers are still run by companies themselves, creating much work for messengers who run from premises to premises to register trades.

Settlement can take up to 40 days on the unregulated market. Croatia also has two unofficial over-the-counter markets, in Varazdin and Osijek, but volume there is much lower than in Zagreb.

Mr Michael Glazer, director of Auchtor Securities which describes itself as the only US-affiliated financial institution in Croatia, is bullish about Zagreb's prospects.

"Croatia probably offers the most favourable risk-reward combination in central and eastern Europe," he says. "Returns on debt and equity instruments are high for a country rated investment grade and for which the true level of risk is significantly lower than those new to the market appreciate."

He claims that Auchtor achieved returns "substantially in excess of 50 per cent" for its clients in Croatia in 1996.

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